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The MAGAZINE of WALL STREET

and BUSINESS ANALYST

OCTOBER 21, 1961 85 CENTS

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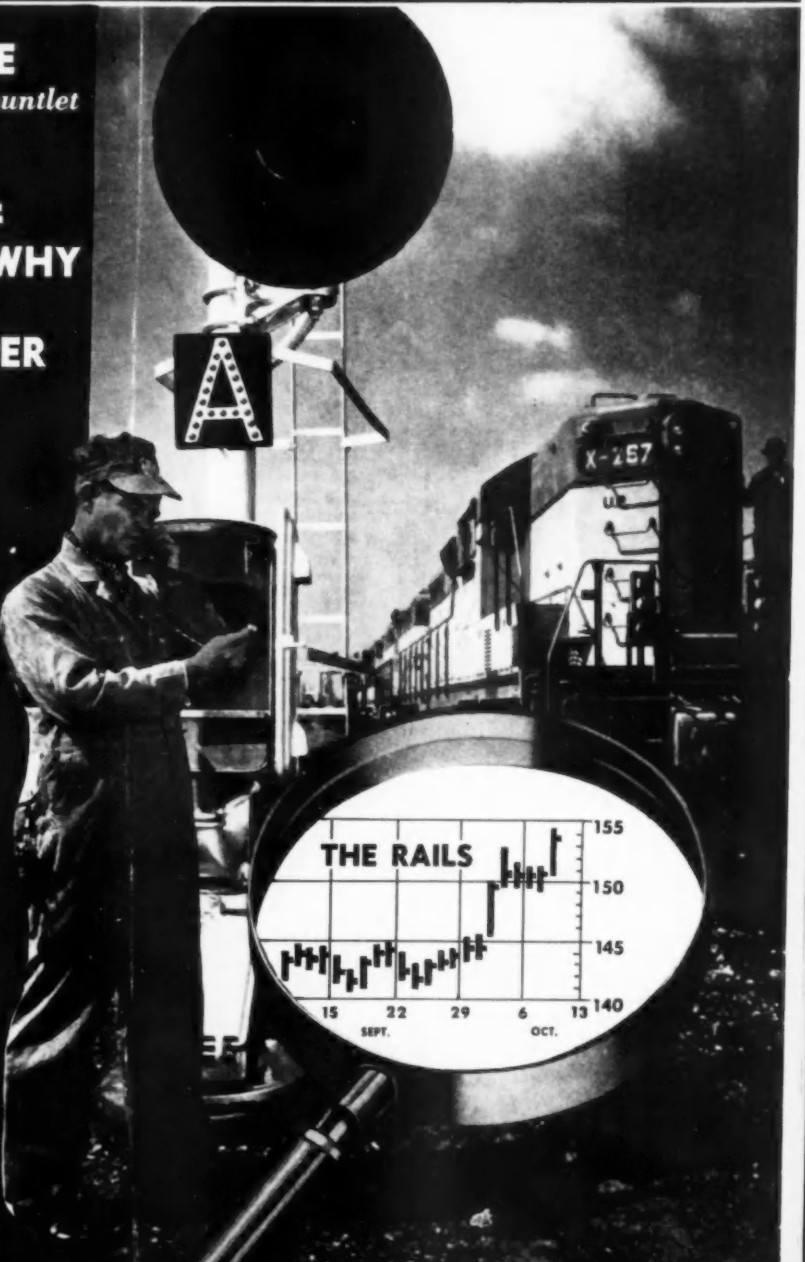

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

VOLUME 109 NO. 3

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Our Cover:

Features a railroad scene, as the industry shows signs of renewed vigor.

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SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

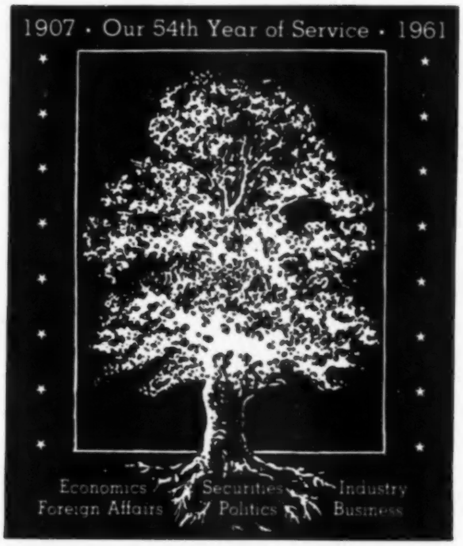
TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4, England.

Cable Address — Tickerpub

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

WHAT'S AHEAD FOR FEDERAL RESERVE POLICY

. . . the dollar, business, the banks and the Treasury

By JACK BAME

WITH just about every indicator of U.S. business activity, and of the status of private and public financial operations here, now being microscopically examined and interpreted not only by domestic observers but by monetary managers all over the globe, especially in Western Europe, Federal Reserve policy, and interest rate movements, have assumed wider significance than ever before.

At the same time, they have been subjected to new limitations, again due to overseas considerations—especially the U.S. balance of payments, movements of short term funds and gold, and their effects on the international evaluation of the dollar's position.

► Although there is some disagreement as to the rate of domestic business recovery, there is no doubt that production and demand are on the upswing. Now that another phase of the cycle is behind us, we can note some of the marked differences between conditions and policies in the last downturn and in the 1958 recession, why these changes occurred, and what the near-term outlook is as far as Federal Reserve policy and its domestic and international implications are concerned.

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

The 1957-8 and 1960-1 Recessions and the Fed

The most meaningful shift from the situation of the post-war era up to and including the 1958 recession, and that which has existed since then, has been (1)—the restoration of external convertibility; (2)—the relatively free movement of funds internationally; (3)—the strength of monetary reserves; (4)—the return to fiscal and monetary discipline; (5)—and the sustained economic growth of most of Western Europe. *These developments made it imperative for the Fed to consider international financial conditions in formulating its credit policies, in addition to the state of business at home.*

Our balance of payments deficit, which had been a major source of European monetary recovery, jumped sharply, and many foreign-held dollars were either converted into gold or invested in short term Treasury bills here, thus reducing our gold stock and increasing our short term liabilities.

Now, for the first time, the Fed had to think of the effects that a lower discount rate and open market operations—concentrated only in the short term area of Treasury bills (the "bills only" policy)—would have on the Treasury bill rate, the flow of short term funds and gold

movements. These considerations led to an abandonment of the bills only policy and to Fed open market purchases in longer term Treasury issues, although the bulk of such activity was and is still in the bill area.

• Therefore, while the average three month bill rate fell to below ¾ of one per cent in 1958, in the period of monetary ease, it did not drop below the level of about 2¼% in 1960-61. This was done in order to cut down on the gold and short term funds outflow.

As a result of this policy it appears that there will be nowhere near as sharp a rise in this rate in the months immediately ahead as was the case in the last recovery, when the rapid increase in interest rates probably contributed to cutting the recovery short, putting an undue burden on monetary policy.

• The same prognosis holds for longer term government bonds too, mainly because commercial banks (despite a high level of loans to deposits) are now in a much more favorably liquid position than they were early in the previous business upturn.

• *Even if loan demands rise considerably with recovery, the commercial banks hold almost 40% of their governments in marketable issues maturing within one year, against less than 20% in mid-1959 and only 13½% in mid-1960. Forced bank sales of longer term government securities, at considerable losses (prices dip with rising yields), in order to meet new loan demands, can thus be avoided, as short term holdings represent an ample source of funds for bank lending.*

The Treasury and the Fed

► On the administration or Treasury side, the expected $6 billion budget deficit for fiscal 1962 represents a considerable negative factor in the view of foreign observers, but is still better than the $13 billion figure of 1958-9—somewhat of a rationalized source of comfort. Most of the immediate Treasury cash needs have been met, although increased world political and military tensions, beyond Treasury control, may necessitate additional borrowings, which would again be financed through short term issues.

If this Treasury demand for short term funds coincides with the rising demand for such funds from the private sector, as is likely near the turn of the year, a shift from the present Federal Reserve policy of monetary ease to a more neutral or slightly "tighter" orientation is probable.

The outlook is for some rise in short term interest rates, with some move in the same direction for longer term rates, but no sudden and sharp reversal to a really tight money policy is in the cards, as considerable excess productive capacity still exists, unemployment *(Please turn to page 164)*

As I See It!

By Malcolm Stewart

HOW ARE WE MEETING KHRUSHCHEV'S ATTACKS ON ALL FRONTS?

PRESIDENT Kennedy, who sold himself to the voters as a "take charge" type who would end the drift and indecision in American foreign policy, so far has failed to wrest the political initiative from the Communists on any major front or issue.

This, of course, is not entirely his fault. As his supporters point out, he inherited an extremely tangled set of problems and has been forced to grapple with many circumstances which are beyond his exclusive control. No man could have been expected to suddenly turn back the red tide all round the world.

Be that as it may, the record nevertheless shows that on those occasions when Kennedy faced the necessity for making a critical decision, the action all too often has been fuzzy and indecisive, far short of matching the vigor of his rhetoric.

Now—nine months after the inauguration of his administration—events are closing in on Kennedy in Europe, Southeast Asia, the Middle East, and some fateful decisions are going to have to be made within the next few months.

With the fate of Western civilization hanging on the ability of the United States to block the spread of Communist imperialism, it is fair to ask whether the new administration has learned some of the elements of jungle warfare as it is fought on the international political front.

The omens are not too heartening. Let's look at some of the separate pieces of the grim picture.

► **In Southeast Asia**—the Communists are gaining momentum again, hacking out new gains in South Viet Nam after consolidating the red position in Laos. There are ominous signs that the Laos fiasco could be repeated in South Viet Nam.

• It was in Laos that Kennedy pledged last March to stop the reds. But when the chips were down and allies became faint-hearted, he saw no other course than to let the United States be suckered into an international conference to "neutralize" Laos. There the Russians and Chinese Communists have succeeded in stalling things until now the red takeover in Laos is virtually complete.

• Laos already has become a supply corridor for Viet Cong forces threatening to cut South Viet Nam in two and flank Thailand.

What are the prospects for decisive action to halt the southward Communist thrust?

► **The United States has decided against sending American troops to South Viet Nam. The official reason given is that President Ngo Dinh Diem's 170,000-man military force should, with U.S. advice and arms, be able to handle the situation. Actually Diem doesn't want any American command in his country lest it threaten the operation of his tight little police state. In addition, some of the allies are**

against any intervention, arguing that it would "provoke" the Chinese Communists.

• The compromise decided upon is to try to create a SEATO task force in neighboring Thailand. The U.S. is willing to send two regimental combat teams for this task force . . . if it ever materializes.

• Chances appear good for another retreat in Asia when the Communists really turn on the heat . . . unless Kennedy has in mind action which he has not even hinted to anyone.

► **On the European front**—there are growing indications that the West is going to seek a compromise arrangement on Berlin which will settle nothing and leave the way open for another "crisis" whenever Khrushchev decides to turn the screw again.

The Kennedy administration failed to act when the Russians forced their East German stooges to seal off East Berlin and turn it into a vast prison camp. Rightly or wrongly, this failure was interpreted by the Russians as a sign of weakness and an indication that the West could be pushed further.

• Instead of acting, the United States and Britain started talking about willingness to negotiate. They were not deterred by French President Charles de Gaulle's warning that there was nothing to "negotiate" except abandonment of Western rights.

Now the outline of a possible settlement is beginning to take shape and it worries both the French and the West Germans.

► **Khrushchev, in return for his magnanimity in letting the allies stay in West Berlin, will exact from them an agreement to deal with the Communist East Germans for access rights as soon as he concludes his proposed "peace treaty" with the Ullbricht regime. This de facto Western recognition of the "sovereignty" of the puppet East German Government, whose territory is occupied by 30 Soviet divisions, is what Khrushchev really wants right now. He can afford to let the allies stay in West Berlin, under more humilliating access conditions, and bide his time for the next squeeze.**

• There is still time for Britain and the United States to heed de Gaulle's advice and simply stand firm and refuse to negotiate away any rights. But the pressures for compromise are strong in the Anglo-American countries, where moderation is considered to be a virtue. To Khrushchev it is not a virtue but a sign of weakness to be exploited for all its worth.

"Kennedy burn and Khrushchev bubble."

► **In the Middle East**—the United States faces the necessity to decide how it is going to play its hand in the light of the new situation created by Syria's break-away from Egypt and the resulting dissolution of the United Arab Republic.

The State Department, for fear of offending Egypt's President Nasser, delayed recognition of the new Syrian regime until after Russia had taken that step. This, although the small countries adjacent to the Soviet Union—Turkey, Iran and Jordan—which Khrushchev had threatened with reprisals again and again, had the courage to immediately recognize the Syrian government and express faith in its stability. That recognition by the Soviet Union followed shortly thereafter, speaks volumes for its anxiety to cover up the first sign of a rightist revolt against communism.

• Premier Kuzbari's new regime is conservative, probusiness, pro-free enterprise and pro-western. Its very moderation will make it the target of the political activists in the area—and the best organized are the Communists. As Nasser's organization falls apart, its elements are likely to be drawn into the Communist orbit and linked with the Kurds to the northeast.

• **Moderate elements in Syria are going to need swift western support if the country is to be prevented from again becoming an ideological battleground. It would be well not to worry overmuch about the sensitivity of Nasser, whose star appears to be descending rapidy.**

• It is too early to tell whether the Kennedy Administration will be capable of moving quickly and effectively into this situation without doing more harm than good.

► **On disarmament**, the Congo and the administrative structure of the United Nations, the East-West deadlock continues. There are no signs anywhere of solution on a permanent basis.

• This, then, is the picture the Kennedy Administration faces after nine months in office. It would seem obvious that the time for vacillation and indecision has ended and the period arrived when firm action is necessary to prevent further erosion of the Western position.

• It is possible that Kennedy may have learned by now that international politics is the same sort of jungle warfare, on a more deadly scale, as domestic politics. If he could project into the foreign field the decisiveness and firmness he showed as a domestic politician, he might find the results will be equally gratifying to him. END

Berlin, Business and Stocks

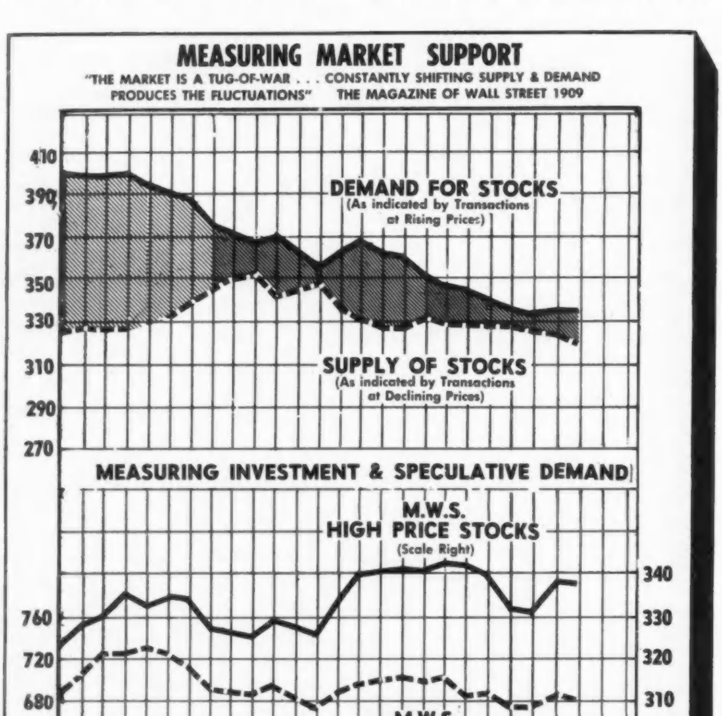
Despite further strength in utilities and a spurt in the long backward rail list, most stocks remain in the recent restricted range. Favorable business prospects argue against general liquidation but foreign uncertainty inhibits demand. Pending more light, especially on Berlin, we continue to recommend a selective and conservative investment policy.

By A. T. MILLER

PACED by rails for a dramatic change, the market staged a seemingly promising performance in the first October week. The rail average rose 6.78 points, mainly in a one-day surge, for the best gain in four years. Utilities pushed ahead to another new postwar high. Although remaining in the September-October range, the industrial average picked up 7.04 points.

But the apparent promise was quickly qualified, and partly nullified, last week. The industrial average gave up nearly 5 points. Utilities were virtually unchanged on the week. Rails had another more moderate one-day surge to a new 1961 high, easing thereafter to cut the week's gain to little more than a point. Mild softness and uneasiness ruled in the two final sessions.

Since the toning down could not be explained on technical grounds, what caused it? We think the answer is obvious. In the preceding week, with nothing tangible to go on, hopes for a peaceful Berlin settlement had been raised by the mere fact of State Department and Presidntial discussions with the Kremlin's Foreign Minister Gromyko. But the discussions proved fruitless. When that fact was officially indicated, hesitation and frustration returned to the market. Moscow still insists on calling the tune on the "German question", still offers no concessions to the West.



• So it remains no less a collision course than heretofore; and nobody can say with any assurance whether it will continue to the brink of war or whether there is a last-minute "detour" ahead. The market cannot sustain a confident mood under this uncertainty. It makes many people more inclined to sit on the fence than to buy or sell stocks, while traders play around with whatever can be moved for the moment—rails as the latest case in point—and institutional funds "play it safe" by continuing dollar-averaging programs in the more conservative sections of the list. Probably most people think that Khrushchev will not risk war—but still it does not foot up to full and confident conviction.

The Tecnichal Pattern

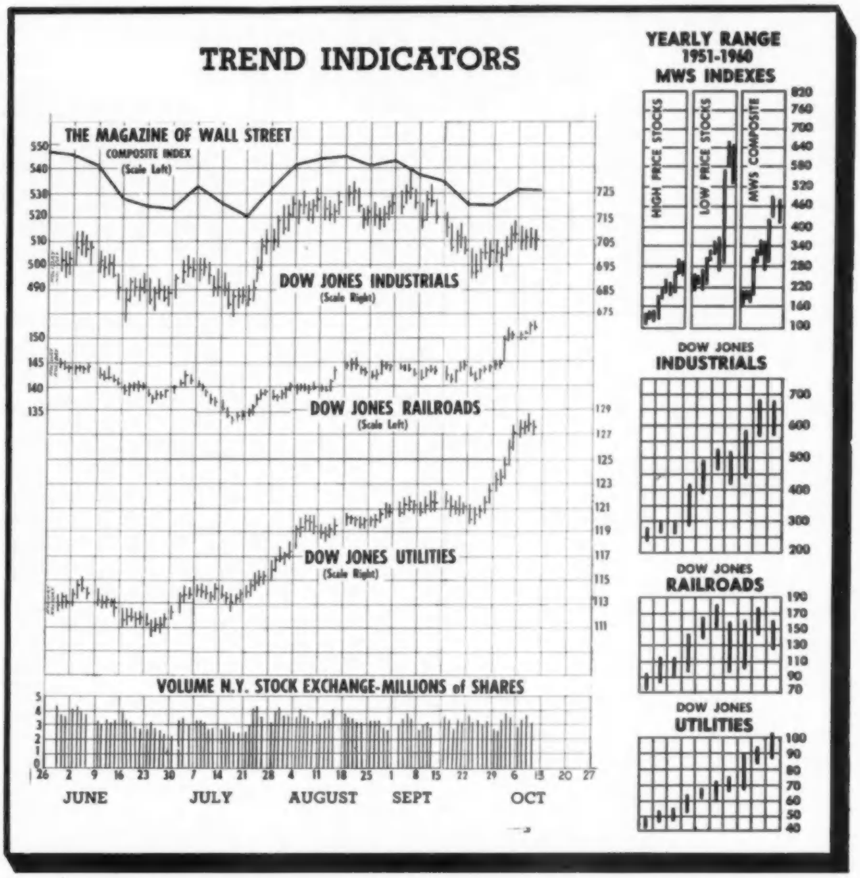
The industrial average is stymied at present, considerably nearer the September 29 reaction low than the early-September all-time high. If the uptrend is still in being, it has lost much of the earlier momentum. Even without the foreign uncertainty, that probably would be pretty much the normal pattern at this stage, with much of the business revival previously discounted and price-earnings ratios uncommonly

high for some time.

► In the first three months of the advance from the October, 1960, low, the gain averaged roughly 30 points a month. In the following three months through April it averaged 10.5 points a month, then slowed to 8.8 points in the three months of May-July. The July close—over ten weeks ago—was 705.37. The average closed last week at 703.31. This puts this picture in broader perspective than would discussion of recent interim swings.

► If anything, the utility uptrend has tended to gain fresh strength from time to time so far, with the pauses amounting to little more than level resting periods. Topping-out indications are still not evident.

► Past history requires that unusual spurts in rails be taken with a grain of salt. This average had two good days during the past fortnight and not consecutively. Whether this can become an uptrend in the real sense of the word is problematical. A slower, steadier rise would carry more conviction. At last week's 1961 high to date, the average remained nearly 9 points under its best 1960 level, some 22 points under its 1959 high and, of course, greater distances under the older highs.



► Ups and downs in individual stocks were fairly closely balanced last week. New highs exceeded new lows by better than three to one, but on the best day there were only 69 of them out of 1,280 issues dealt in. The favorable spread shown by our Supply-Demand measures remains narrow.

• **Market Leadership**—A few months ago there was considerable opinion that the time had come for capital-goods stocks to assume some market leadership, but it has not developed. Investment preference is still mainly for the consumer-goods and service-field stock groups. Among the groups now well under their 1960-1961 highs are agricultural implements, air conditioning, aluminum, auto accessories, copper, machinery, metal fabricating, railroad equpment and steels.

• The trouble in many of these lines—and in much of manufacturing industry generally—is intense competition, and either pressure on prices or inability to raise prices into line with increased labor costs.

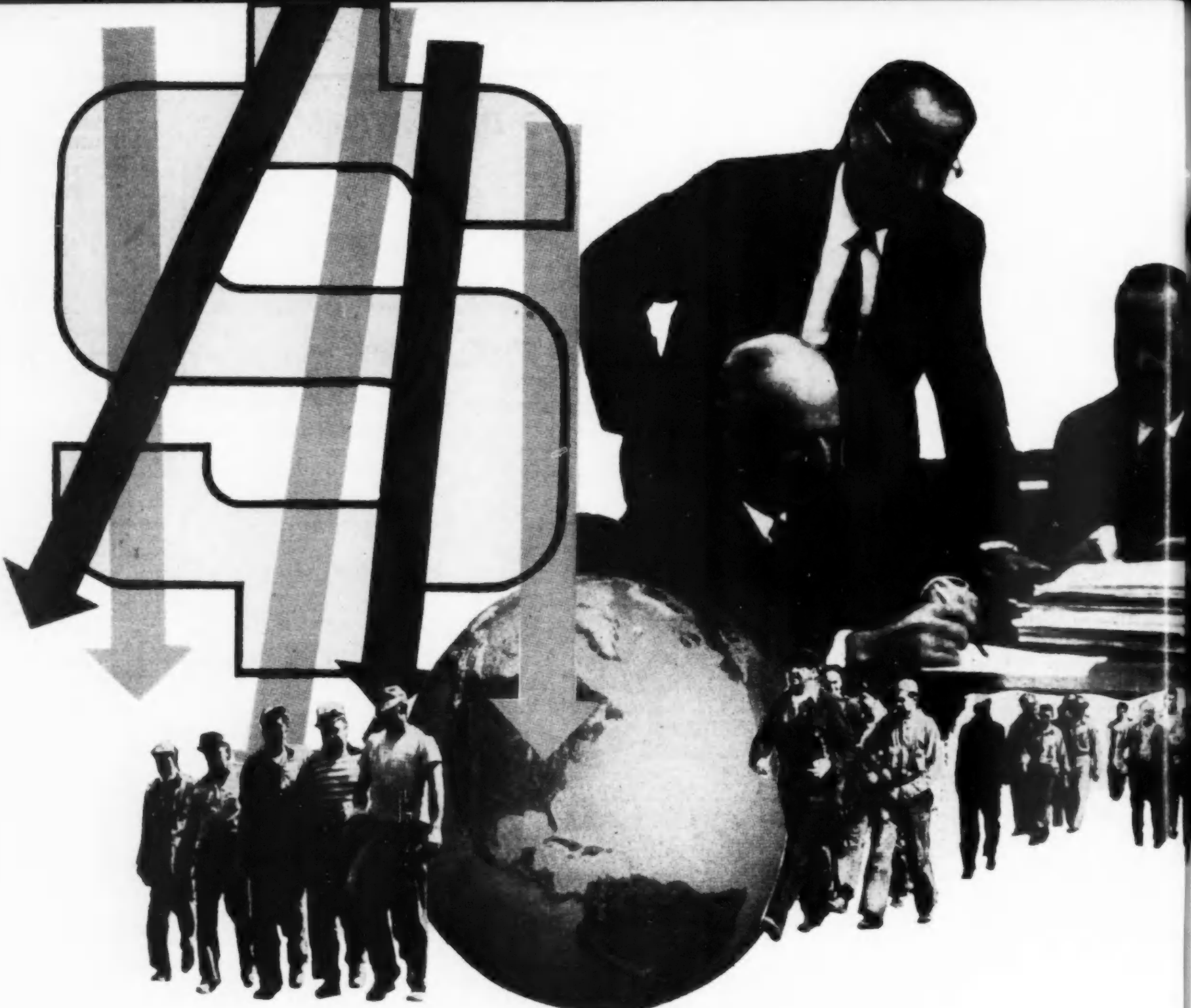
• **Deficit Spending**—Looking at the Government's deficit spending and continuation of the Federal Reserve's easy-money policy, the financial community is mindful of the long-term inflation threat. But for the business community, dealing with present supply-demand conditions and prospects, inflation "talk" is largely academic.

• **Prices**—The fact is that the wholesale price index is lower now than it was at the bottom of the business recession last February-March and lower than it was a year ago. The same is so for the index of all non-farm and non-food items. Moreover, actual prices are lower than the latter measure indicates, since it is based on "official" or "list" prices, whereas much business is done on unpublicized cut prices. "Discount selling" is by no means confined to the retail field.

What About Profits?

► If you have dreamed of any boom in corporate profits, forget it. Expansion of volume could well take them back, maybe in 1962, to around, or even somewhat above, the 1959 level—at which there had been insignificant growth since 1950. They will lag, relative to production and gross national product. Such being the prospect, could the market have a clear road now, regardless of the Berlin and other foreign uncertainties?

Of course, this is a generalization. Company prospects vary. So is any market average a generalization. But, without a fairly broad over-all rise, it will remain easier to preach the need for selectivity in portfolio management than to practice it successfully.—**Monday, October 16.**



THE BATTLE FOR TRADE

— As the World Throws Down the Gauntlet to American Leadership

By ROBERT B. SHAW

- **Why it isn't wages alone — the use of semi-skilled wokers under automation — new efficiencies and productivity abroad**
- **Comparing taxes and depreciation rates in the various countries — including "socialist" Sweden — advantages for Russia**
- **What of tariffs — the answer — the other steps we can take**

FAR from the least of the profound economic changes which have transformed the American scene in the last decade is the remarkable rise in foreign competition.

Of course, the penetration of **some** foreign goods into the American market is nothing new. But before World War I the slowness in transportation and the backwardness of many foreign countries severely restricted their export opportunities in manufactured goods. During the 20's and 30's much of the world, our country included, lived behind comfortable trade barriers. And after World II our domestic industry enjoyed a final brief respite as Japan and most of Europe were engaged in crawling out of the ashes of destruction left by the war.

But then the long, comfortable golden era for American industry came to an end. Now in a world where transportation has shrunk distances and trade barriers are regarded as archaic, revitalized foreign economies are competing on an international scale with dynamic vigor. Many of these countries enjoy substantial advantages over our own manufacturers—advantages which seem to be growing stronger year by year. To the extent that these advantages are inherent—if foreign manufacturers are actually more ingenious than our own—then there is little we can do except to resign ourselves to a deteriorating trade position. But if many of

these advantages are purely artificial—the result of burdens placed upon our industry — effective corrective measures should be possible. It is important, therefore, for investor-participants in American industry to examine realistically the reasons behind our losses to burgeoning foreign competition.

What Has Happened to U.S. Export Trade

First, however, a brief glance at the trends in American foreign trade since 1953. During this period our imports have risen steadily, from about $11 billion to $15 billion per annum, in 1960. Exports climbed more rapidly at first, from $12 billion in 1953 to $19 billion in 1957 and then dropped sharply in the two following years. Last year, to be sure, a full recovery to the 1957 level was made, although this was not yet enough to wipe out our unfavorable balance of payments.

During the post-war era U.S. exports have typically consisted largely of machinery — comprising 35% of the total in 1959. It should indeed be a source of pride to us that our machinery is so highly prized all over the world. Yet, much of this machinery has undoubtedly gone to rehabilitate other nations and thus to set up our own competition; by its very nature this market will be largely self-eliminating. In the important category of "Other Manufactured Goods" we have done much more poorly. Exports in this category, in fact, advanced only 2% from 1953 to 1959.

During this same period Japan boosted its exports of general manufactured goods by 180%, West Germany 137%, Italy 128%, and so on. By contrast the United States barely got beyond the starting point in this important race.

Perhaps some solace may be found in the fact that we have not typically been an exporting nation. In 1959 exports contributed barely 3% of our Gross National Product. In contrast, Japan and many European countries must export or die; in extreme cases, like Netherlands and Switzerland, exports exceed a third of annual production.

► But this does not mean that we will be any the less vulnerable to foreign competition in our own domestic market. Indeed, the impact of such competition is more severe than the import statistics show, for many American industries are certainly held to abnormally low profit margins by the threat of foreign imports that would follow any price boosts. It is probably foreign competition more than the lurking threat implied in President Kennedy's recent letter to steel excutives that has contributed to holding the line in that indusry. And what is true of steel is also the case for paperboard, cellulose, glass, typewriters, cameras, electrical equipment and a whole host of products.

Lower Wage Rates Abroad: A Partial Answer Only

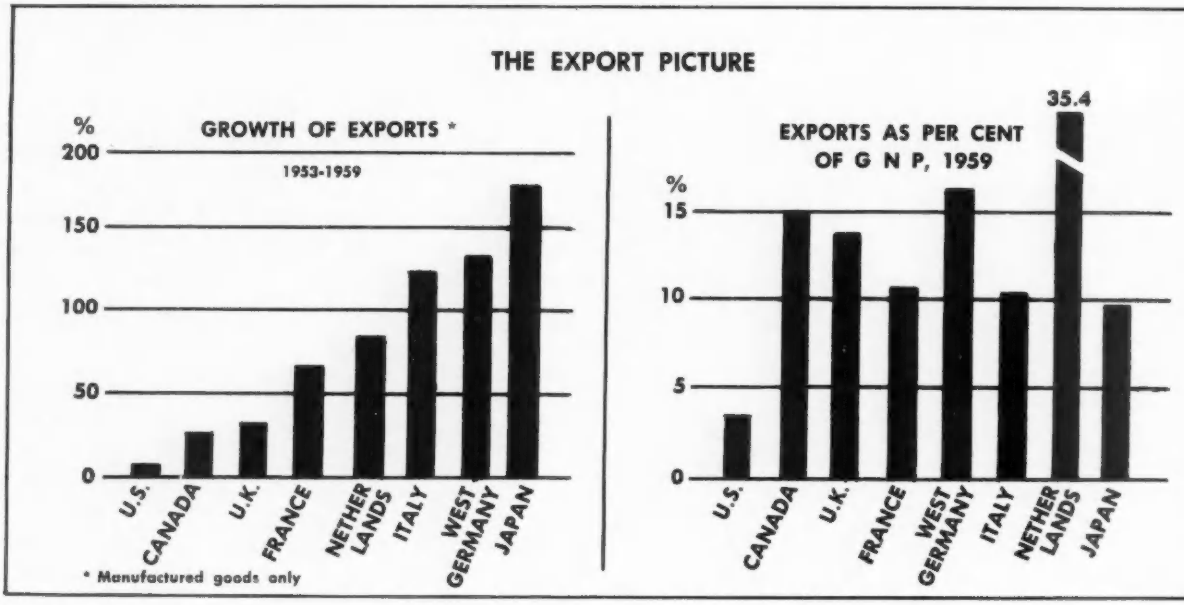
Labor Costs—Almost always the first reason cited for the successful invasion of our domestic market by so many foreign manufactures is the low wage rates prevailing abroad. And this is a powerful factor. A generation or longer ago, in fact, American industry had pretty well resigned itself to the loss of markets for goods made largely by hand labor: clothes pins, cheap toys, Christmas tree ornaments and the like. What now hurts so much is that this competition has recently spread to such intricate items as machinery, optical instruments and electric generators.

► Lower wage rates are undoubtedly largely responsible for the capture of many of these markets by foreign imports. Outside of Canada no other country has a wage scale even remotely approaching the average of $2.75 an hour for all manufacturing paid in the United States in 1960. According to the National Industrial Conference Board, West Germany came closest to this peak at 90¢ an hour, Great Britain followed with 85¢, and Japan trailed far behind with 30¢.

Among selected industries the discrepancy is even more extreme; basic metal workers in the U. S. last year received average remuneration of $3.45 an hour vs 38¢ for the Japanese. And, generally speaking, foreign labor in western Europe and Japan seems to be just as skilled as our own. Thus, hourly wage rates one-third to one-fifth of our own naturally give European manufacturers an enormous advantage in supplying one-third of our flat glass requirements or in laying down steel shapes at Great Lakes ports 10% to 30% cheaper than the nearby mills can manage to supply.

Nevertheless, it is probable that low wage rates abroad have been overemphasized as an explanation for successful foreign competition. At least, this is a long-standing factor, which does not, by itself, explain the accelerated penetration of our domestic markets within the past five years. As a matter of fact, wage rates have advanced more rapidly in most foreign countries than in the United States during the past decade.

The Japanese worker is still poorly paid by our standards, but he no longer labors all day for two or three cents, just enough to buy a bowl of rice. Between 1953 and 1959 hourly earnings in the United States advanced 31%, as compared with 45% or more for most other industrial nations. (For some years before 1953, to be sure, wage rates had risen more rapidly in the United States than in most foreign countries.) In brief, foreign countries have been able to invade our markets while their wage rates were climbing more rapidly than our own; while this does not wipe out their advantage of much lower absolute rates, it also means that we must look for some further explanation.



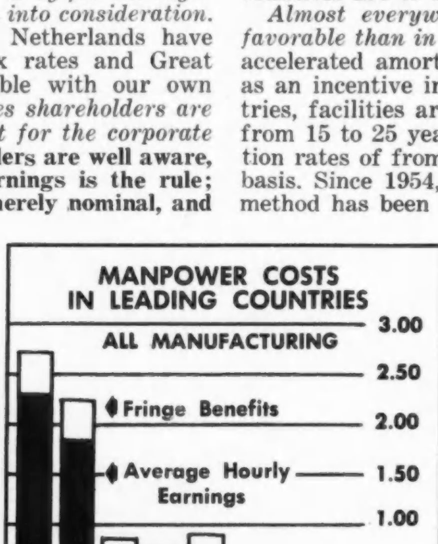
Negligible Offset Against U. S. Corporate Tax

► **Taxes**—Most important of the non-wage costs which industry must bear is taxation. It is impossible to compare corporate tax structures closely in different countries, as the treatment of depreciation (which will be considered below), exemptions, offsets granted to shareholders on their individual tax and the degree of enforcement all affect the final tax payment. *Indications are, however, that the United States corporate tax rate is by far the highest in the world, all factors taken into consideration.*

To be sure, France and the Netherlands have apparently higher corporate tax rates and Great Britain a levy closely comparable with our own 52%, *but in all of these countries shareholders are granted a very substantial credit for the corporate tax.* **In this country, as shareholders are well aware, double taxation of corporate earnings is the rule; the credit against dividends is merely nominal, and the Administration is trying to wipe out even that modicum.**

It is also probable that tax laws are more rigidly enforced in the United States than most other countries. In many of them, at least, evasion is widespread.

Regardless of the legal position, "profits" are a cost, a rental paid for the use of capital. Industries, here and abroad, are in competition with each other for equity capital. **Our own habit of penalizing capital heavily by taxation is a burden that gives a strong advantage to foreign industry; in fact, it has led to the flight of large amounts of domestic capital seeking the more comfortable terms available abroad.**



U.S. Far Below Other Countries

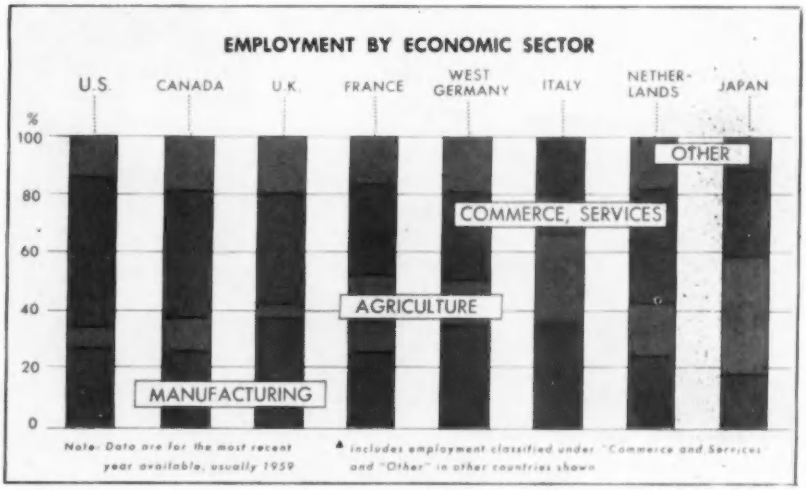
Comparative Depreciation Rates—Another important non-wage cost is depreciation—the consumption or obsolescence of plant and machinery. Now, of course, equipment does not ordinarily wear out faster in one country than another, but because depreciation provides a method of accumulating replacement capital on a tax-free basis the formalized depreciation rates that have been established in most countries are of the utmost importance to industry.

Almost everywhere these rates are much more favorable than in the United States. Aside from the accelerated amortization that was recently allowed as an incentive in certain defense-associated industries, facilities are usually assigned a useful life of from 15 to 25 years, equivalent to annual depreciation rates of from 6⅔% to 4% on the straight-line basis. Since 1954, to be sure, the declining-balance method has been authorized for new property, and this would mean corresponding rates of 13⅓% to 8%—or a maximum write-off of about 35% in the first three years.

• *How does this compare with rates in other leading industrial countries?* Well, in ***"socialistic" Sweden*** any property can be written off over a five-year period. In the ***Netherlands*** one-third of the property can be written off in the first year, beginning from the time that a contract for equipment is placed; in neighboring ***Belgium*** various categories of machinery can be depreciated over from four-year to ten-year periods, with even more favorable treatment since 1959 for new ventures or large additions to existing plants.

The basic rate on machinery

in *Germany* is 10%, but this may be accelerated on the declining balance method to 25% in the first year and about 58% in the first three years. ***France*** allows an ordinary straight-line write-off of 15% (i.e., a life of less than seven years), and this may be doubled if the machinery is used in multiple-shift operation. As much as 57.8% may be amortized in three years, under the declining-balance method. Although ***Great Britain*** has the least liberal depreciation allowances among European countries, various categories of machinery may be written off at from 7½% to 20% a year on a straight-line basis, or an increase of one fourth on the declining-balance method.



► A related problem handicapping American industry is that, because of inflation, full depreciation of equipment purchased 25 years ago does not come close to covering replacement.

Several countries, including Great Britain and France, make additional tax-free allowances in excess of historic costs to compensate for inflation. Sweden even allows a tax deduction of up to 40% of net income in any year for reserves to stabilize economic activity. *But the United States is backward in this respect; rather than any incentive being given for modernization the process is heavily penalized.*

Failure to Recognize Obsolescence

► Our niggardly depreciation rates are the more dangerous because, increasingly, it is obsolescence rather than physical wear and tear that terminates the life of machinery. Machine tools, for example, typically become obsolete now within five years. Earlier this year the Senate Small Business Committee itself declared:

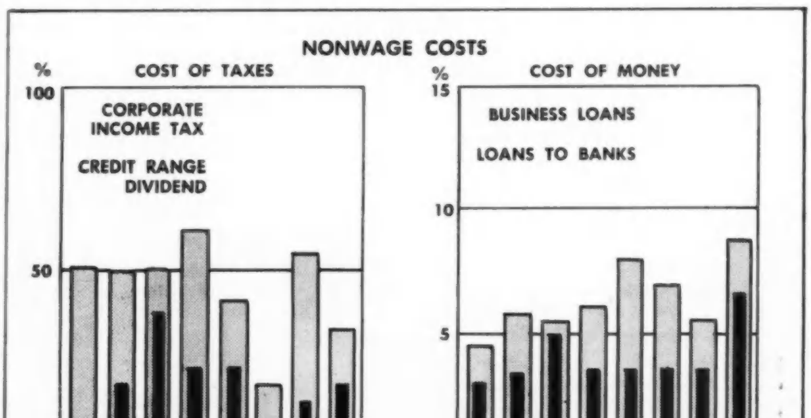
"Present depreciation policies do not sufficiently encourage the expansion of the national economy. Indeed, those policies have, in all probability, stifled economic growth."

As a partial answer to these criticisms the Administration proposed, as part of its tax bill, a small credit against the cost of new equipment. This measure was generally opposed by business and is now dormant. *But what is needed is not a makeshift tax gimmick like this, but a straightforward liberalization of depreciation rates.*

More Rapid Productivity Increase Abroad

Greater Efficiency—While the heavier taxes and lower depreciation rates in the United States do give foreign industry an important artificial advantage, it should not be fondly imagined that this fully explains its success in invading traditional American markets. On the contrary, European and Japanese industry is highly efficient, and is growing more so.

According to the United Nations, productivity in terms of output per man-hour in manufacturing has increased 71% in Japan since 1953, 58% in Italy, 54% in France and 53% in West Germany. The United Kingdom has lagged seriously with a 29% advance, but down at the bottom of the list, with only a 15% gain, stands the United States.



• The reasons for this superior performance abroad are not hard to surmise. Foreign industry, largely wiped out during the war, has been rebuilt from scratch, often with our financial aid and technical advice. Possibly there are also psychological factors, such as less featherbedding by Japanese and German workmen. But whatever the reasons, the results are clear: a new, tougher foreign competition.

Will Automation Help—or Hurt—Us?

Automation—Thus, the comfortable lead that the United

(Please turn to page 159)

THE RISE AND FALL OF GLAMOUR STOCKS ... AND WHY

By WARD GATES

► **What happened to the various high-flying companies — the common-sense yardstick to use when evaluating the speculative issues**
► **Stable stocks and a different point of view**

T doesn't take much dissection to discover that the stock market is made up of widely divergent movements. In recent weeks we have been treated to the spectacle of strong upward trends among utility, tobacco and food stocks—and a dramatic rise in the rails, while electronics, vending machines and other recent favorites of the speculative fraternity have fallen flat on their faces.

This phenomenon of highly popular stocks getting an unexpected comeuppance is a recurrent theme which should be noted carefully by investors, since the lure of large speculative profits is ever present, while the pain of aborted growth stocks often gets hidden by the inattention of the financial press and the disappearance of yesterday's belle from familiar brokerage market letters.

Where, for example, are the Canadian oil stocks that adorned the financial literature only a few years ago? In what limbo does titanium now exist? Where are the uranium stocks, now that the USSR is fulfilling its bright promise by contaminating the atmosphere with radiation? And what ever happened to the glittering prospects for aluminum?

These aren't idle questions. For they point up the simple truism that the only real criteria of stock values is earnings and dividends. When the reality of daylight brushes away the nocturnal fantasies of speculators, the results are usually broken dreams and depressed stock prices.

The two accompanying tables present the cold realities in painfully graphic terms. Table I, which presents several stocks that have been in longer-term down-trends, is not confined to one-time glamour issues, but the lessons to be gleaned are instructive nevertheless. For in almost every case the current prices represent either a more realistic appraisal of the company than was once the case or the depressed price of unfilled promise.

15 Stocks That Have Declined From Recent Highs 1960-61 To Date

	High 1960-61	Recent Price	Points Decline	Percentage Decline	Earnings Per Share 1st 6 Months 1960	Earnings Per Share 1st 6 Months 1961	Percent Change In Earnings	Earned Per Share In Past 12 Months	Priced Earn. Ratio *
Allis-Chalmers Mfg.	40	22	18	45%	$ .83	$ .50	—40%	$ .79	27.8
American Machine & Foundry	63	44	19	30	.72	.74	+ 2	1.55	28.3
Ampex Corp.	42	20	22	52	.05[1]	.01[1]	—80	d .51	—
Avnet Electronics Corp.	68	26	42	61	.73[2]	.70[2]	— 4	.70	37.0
General Instrument	55	28	27	49	.26[3]	.27[3]	—	1.40[4]	20.0
Hewlett-Packard Co.	53	29	24	45	.34[5]	.38[5]	+11	.50[4]	58.0
Nafi Corp.	66	26	40	60	1.28	1.34	+ 4	1.48	17.5
Perkin-Elmer Corp.	83	51	32	39	1.05[6]	1.05[6]	—	1.05	48.5
Standard Kollsman Industries	53	35	18	34	.69	.77	+11	1.74	20.0
Texas Instruments	256	110	146	57	2.00	1.60	—20	3.51	31.3
Transitron Electronic	60	18	42	70	.80	.40	—50	.68	26.4
Underwood Corp.	65	38	47	72	d2.62	d1.40	+46	d5.05	—
Universal Match	80	33	47	58	.80	.43	—46	.83	39.7
Varian Associates	77	43	34	44	.69[5]	.61[5]	—11	.75[4]	57.3
Vendo Co.	77	46	31	40	.75	.41	—45	.86	53.4

d—Deficit.
*—Based on latest 12 months earnings reports.
[1]—1st fiscal quarter ended July 31.
[2]—Year ended June 30.
[3]—1st fiscal quarted ended May 31.
[4]—Estimated.
[5]—1st 9 months.
[6]—Year ended July 31.

Carrier can serve as an illustration. In 1957 when the stock sold as high as $65 on earnings of $3.17 per share, investors were confident that air conditioning was in one of the major waves of the future. And so it has proved to be. What they failed to see, however, was that its profit potential would be largely dissipated in a competitive struggle among scores of producers. Hence, while the use of air conditioning boomed beyond the most optimistic projections, Carrier—and others in the field—were hamstrung in the profits column by depressed prices and overproduction. The result for Carrier was no earnings progress in most years and a drastic drop to $2.03 per share in 1960. Some recovery is indicated for 1961. but hardly enough to alter the market's judgment, which has pushed the stock to a level some 25 points under previous highs.

Good Company, Bad Industry

In many cases, and Carrier is one of them, the return to stern reality has little to do with the company's performance or the calibre of its management. Rather, the current price merely represents a skimming off of the exaggerated premiums which overenthusiastic investors put on the stocks in the first place.

American Motors is another case in point. Two years ago investors were bidding wildly for the privilege of owning the shares. So wildly, in fact, that an outsider might have thought the company was soon to replace General Motors as number one in the industry. But today, at 18, the stock is 44% below its high while earnings are down 50% from the peak of $3.37 scored in 1959. And yet, American Motors has really fulfilled its promise. What was once a sick "also-ran" in the highly competitive auto market is now a lusty independent recognized by all as a vital force in the industry. Moreover, even in a bad year such as 1960, the company managed a profit of $1.67 a share on a fully taxable basis, indicating that it is now firmly on its feet.

In effect. nothing is wrong with American Motors. It was the ridiculousness of the price, which reflected both temporarily tax-free earnings and indiscriminate speculation, that caused the disappointment. The disease of overoptimistic investmentitis infects many stocks.

Walt Disney is another. True, its earnings have failed to grow, but there was little in the picture in the first place to indicate anything but occasional bursts.

The market, overexcited about Disneyland and a few television successes, viewed one or two good earnings years as proof that Disney had discovered some magic formula for steady profits growth. What it failed to recognize is that entertainment audiences are as fickle as stock speculators.

Disney will have new and perhaps bigger successes. But in most years the business will just run along at a normally profitable rate because that is all that can reasonably be expected.

Fundamental Changes

In other cases, however, there have been fundamental changes in either the industry or company position. Some of these changes might have been foreseen by the discerning eye. Both **Eastern Airlines** and **Pan American,** to illustrate, suffer from basic conditions affecting their industry. But these conditions were highly predictable. As far back as 1955, when Eastern was making its all time high. it was obvious to many analysts that the bright promise of jet transports would be dimmed by the high costs of financing the equipment.

Moreover, while investors were impressed with the jets they failed to notice that faster and bigger planes would not solve the industry's most basic problem, the overlapping of routes and the necessity for flying too many empty planes to places no one wants to visit.

Pan American's problems are further complicated by the fact that American regulatory agencies cannot control the policies of competitive foreign airlines. But both at home and abroad the results have been the same. The public took eagerly to jet travel, but the combination of high costs and an inefficient

25 Stocks In Longer-Term Decline, 1955-1956 to Date

	High	Year	Recent Price	Points Decline	Percentage Decline	Earned Per Share In Year of High	Earned Per Share In Past 12 Months	Per-cent Change	Price Earn. Ratio*
Admiral Corp.	30	1955	12	18	60%	$1.66	$d1.10	—%	—
American Motors	32	1959	18	14	44	3.37	1.67	—50	10.7
Anaconda Co.	87	1956	49	38	44	12.85	4.25	—62	11.5
Bucyrus-Erie	56	1956	17	39	69	3.64	d4.86	—	—
Carrier Corp.	65	1957	39	25	39	3.17	3.51	+10	11.2
Chrysler	101	1955	56	45	44	11.49	d.84	—	—
Curtiss-Wright	49	1956	17	32	65	5.64	.99	—82	17.3
Disney (Walt) Productions	59	1959	35	24	40	2.15	1.60[1]	—25	21.8
Eastern Air Lines	58	1955	22	35	62	5.32	d2.48	—	—
Endicott Johnson	41	1959	21	20	48	1.50	d4.93	—	—
Flintkote	44	1959	26	18	41	2.41	1.77	—30	14.6
General Dynamics	68	1957	28	40	58	4.80	d5.44	—	—
Halliburton Co.	92	1956	49	43	46	4.94	3.90	—21	12.5
Joy Manufacturing	72	1956	38	33	46	6.10	2.75	—54	14.0
Kaiser Aluminum	70	1956	34	36	51	2.87	1.13	—60	30.0
Kress (S. H.) & Co.	55	1955	21	34	61	3.81	.46	—87	46.1
Lehigh Portland Cement	58	1956	25	33	56	2.82	1.30	—53	19.2
National Lead	138	1957	81	57	41	4.64	3.86	—17	20.9
Pan American Airways	35	1959	18	17	48	1.17	.33	—71	55.4
Raytheon Co.	73	1959	36	37	50	3.02	1.74	—42	20.6
Reynolds Metals	71	1959	38	33	46	2.39	1.16	—51	32.7
Rheem Manufacturing	45	1955	14	31	68	3.10	d1.22	—	—
Royal Dutch	60	1957	31	29	48	5.53	3.65	—34	8.5
Sharon Steel	59	1956	23	36	61	6.28	d.99	—	—
United Fruit	60	1955	24	36	60	3.82	.31	—91	77.4

d—Deficit.
*—Based on latest 12 months earning reports.
1—Estimated

industry structure squeezed out the profits.

Royal Dutch, in the oil industry, and **Kaiser** and **Reynolds Metals** in the aluminum industry, also illustrate the risks inherent in fundamental change. Their deterioration needs no further elaboration since they have been discussed frequently on these pages. But the point should be clear that speculative optimism usually persists beyond the point of rational analysis.

The overcapacity and price structure diseases that afflict both groups were clearly discernible as far back as 1956. Yet the follow-the-tape fever is so hot that few unseasoned investors look at the fundamentals until the heat has resulted in a singed pocketbook.

One other illustration among the stocks in longer-term downtrends deserves lengthy comment because of the great lesson it contains. That is the **Chrysler** story. It is no coincidence that Chrysler hit its high back in 1955, a year of booming sales for the entire auto industry. That year, in fact, Chrysler earned $11.49 a share, so that the high of 101 seemed no more than a reasonable multiple.

In 1960, however, Chrysler showed a deficit, and its record between 1955 and 1960 has been far from impressive. What speculators failed to note in 1955 is the simple fact that Chrysler's capital structure and the normal vicissitudes of the auto industry will almost invariably lead to sharp ups and downs in earnings. To pay a premium for one year's earnings without carefully studying the probabilities that those earnings can be maintained over a period of years is the height of shortsightedness.

Fallen Idols

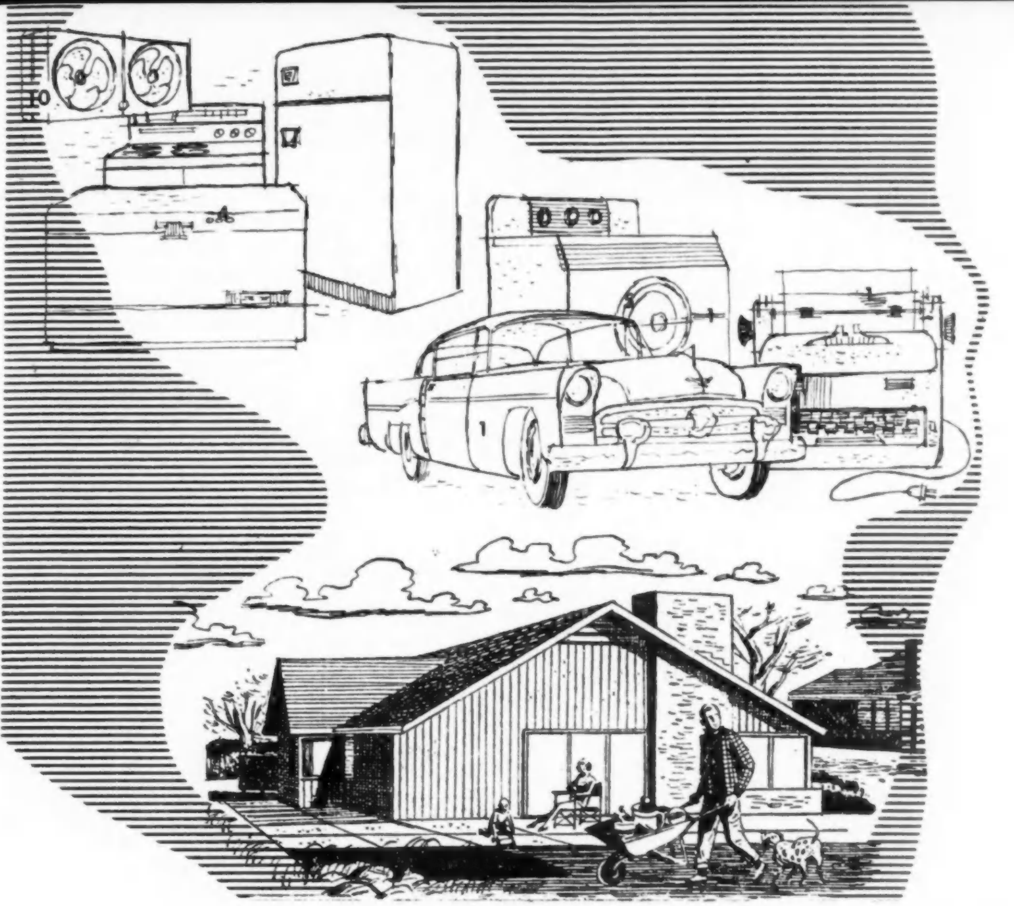
Table II contains a list of stocks that have one important distinguishing characteristic which separates them from the group in Table I. They have all broken hearts in a much shorter period of time.

Some, it is true, may come back. Others may settle down as seasoned stocks and regain their former lofty heights over a period of years. But in any event, the pain for recent buyers is acute. What happened?

Allis-Chalmers is the easiest to deal with because its earnings picture has simply fallen apart, leading to successive dividend cuts in recent years.

But what about such bright stars in new and exciting industries as **Transitron, Ampex** and **Texas Instruments**? In each case, investors were certain they had latched on to a skyrocket that would take them over the horizon to the pot at the end of the rainbow. Actually, as much promise still attaches to these industries as ever. But early hopes were grossly exaggerated while competition was underestimated.

In many respects the electronic industry resembles the television set industry of a few years ago. The potential market for the industry as a whole is enormous—perhaps incalculable. But, and the **but** is a big one, it takes relatively little capital to enter most electronics fields. Hence, as new products which show large volume potential develop, scores of outsiders come rushing into the field to fill the demand. It is no accident that electronics components have been the favorite area of *(Please turn to page 160)*



THE AMERICAN CONSUMER —HEEL OR HERO?

By HOWARD NICHOLSON

- ► **The various economic and psychological factors in consumer buying — cyclical upturns — durable goods demand today — the difference between '49 - '58 — what the fourth quarter of 1961 looks like**
- ► **Today's different needs — inferior and shoddy products — impact of international tensions — effect of increased cost of goods and services — those recalled to military duty — the slowdown in family formations — its significance to GNP**
- ► **What prospects for consumer buying, looking to 1962?**

WHAT has happened to the American consumer, widely hailed as the "hero" of the 1960-61 recession last Winter when he began to step up his purchases of goods in the face of a mounting tide of unfavorable business news?

Has he gone on strike, as many fear? Since last Spring, total retail sales after adjustment for seasonal variation have shown no real improvement, month after month. Meanwhile, industrial activity has risen sharply as factories have stepped up production in anticipation of substantial improvement in consumer demand.

The possibility that the consumer will turn out to be the "man who wasn't there" has begun to send cold chills up and down the spines of government officials, who have been counting heavily on increased Federal spending and much talk of further substantial gains in outlays to touch off improvement in the economy in all directions.

Many business men are equally concerned, especially those in retailing, who have been placing big orders for goods in anticipation of sharp upturns in consumer spending.

And, while automobile industry executives are bravely predicting sales of 7,000,000 1962 model cars, Detroit is all prepared to stem the current rising production if dealer sales in the weeks ahead do not live up to expectations.

The Big Wheel

Although much emphasis is being placed on the upward trend in government spending, economists

are only too well aware of the major importance of consumer spending in our economy.

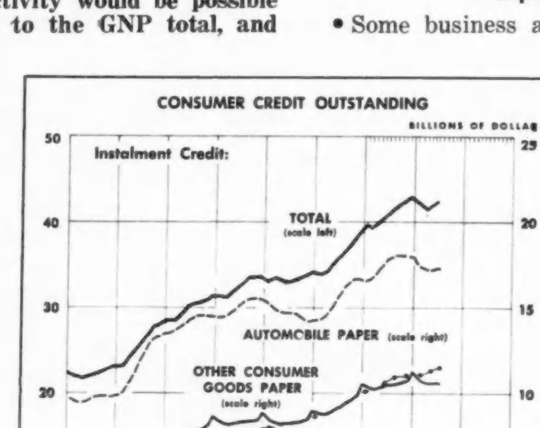
"Personal consumption expenditures" for goods and services account for nearly two-thirds of the total gross national product. In the second quarter of this year, these expenditures were at a seasonally adjusted annual rate of $336.1 billion, equal to 65.1 percent of GNP. Government spending (Federal, state, and local) for goods and services was at the rate of $107.2 billion, equal to 20.8 percent of GNP.

It is all well and good for Administration economists and some private economists to talk of government spending rising to a rate of approximately $125 billion by the fourth quarter of next year, and of the GNP rate rising to around $600 billion, but they must be well aware of the fact that such sharp rise in overall business activity would be possible only if other contributors to the GNP total, and especially the all-important consumer expenditures, increased by the same ratio as government spending.

These ratios are not fixed and immutable. If consumers continued cautious, with the contribution of government spending to GNP rising to 22.8 percent, the GNP total would be barely $550 billion or 10 percent below the apparent Washington "goal" of $600 billion.

Indeed, the estimates of a GNP rate of $540 billion for the current quarter are unlikely to be attained unless there is a pronounced change in consumer attitudes, particularly with respect to the use of instalment credit for the purchase of automobiles and other durable goods.

A business boom cannot be developed from hot air. It has to have substance, and that substance can only come from sharply increased consumer buying.



Fourth Quarter Importance

The importance of developments in the current quarter as a guide to the coming year cannot be overemphasized. If consumers continue "standoffish", one probably can write off 1962 as a year of no more than moderate business improvement with the possibility of some slackening in the second half.

If, on the other hand, consumer spending quickens more than seasonally, and consumers begin to step up their use of instalment credit, there is a good possibility that general business activity will rise steadily through next year although late-year levels of activity may be moderately below the Washington goal.

Unquestionably, this may seem to be putting altogether too much emphasis on consumer attitudes in the next 10 weeks or so. *However, from the standpoint of timing, we now are in a crucial area.*

• On the basis of historical consumer behavior in periods of business upturn following recessions, the coming weeks will tell whether consumers have been behaving normally, that is, deferring sharp expansion in spending and in the use of consumer credit until seven or eight months after the bottoming out of business recession and subsequent upturn. Or whether, as has been rather widely asserted recently, there has been a profound change in consumer attitudes of a somewhat permanent nature, with emphasis on saving rather than spending.

Expecting Too Much

• Some business analysts maintain that, in expecting consumer spending and retail sales to improve along with some of the other measures of business activity in recent months, we have been expecting too much too soon.

• There is statistical evidence that, although retail sales in the postwar period have tended to bottom out earlier and turn up earlier in recessions than general business activity, sales in 1954 and again in 1958 did not register any sustained improvement until months later, in the fourth quarter of both years.

• **Instalment credit data indicate that, for some six to eight months after the bottoming out of a recession, consumers continue to liquidate a portion of their outstanding instalment indebtedness by restraining their new borrowings and repaying more on past indebtedness than they are borrowing currently. Then, and only then, do they "take off" on a new instalment buying spree which may continue for anywhere from eighteen months to three years.**

• Disappointment over the failure of retail sales and consumer instalment buying to expand earlier is attributed by these business analysts to the lack of understanding of the normal "lag" in consumer attitudes.

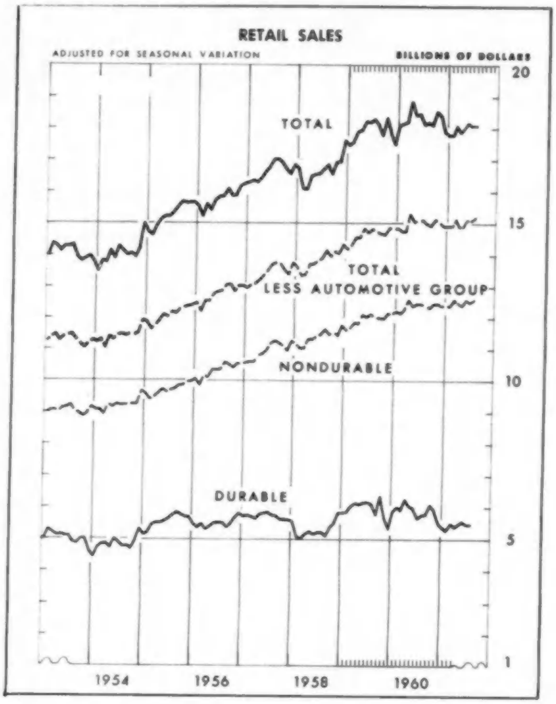
• It also is pointed out that the improvement in business activity last Spring was recognized very early by the business community whereas, in all previous periods of business recovery, the fact that business was on the mend was not recognized until months later when recovery had become widespread and consumer spending already had shown substantial improvement.

• Much of the consuming public, it is said, has little or no knowledge of the statistical data that are available to business men from governmental and other sources, and tends to base its ideas of whether business is improving upon the extent of unemployment. *While this tendency is quite understandable, the fact remains that unemployment normally continues high for a number of months after business recovery is well under way.*

On the Other Hand

There is no denying the evidence of how consumers have behaved in previous periods of business recovery from recession and the possibility, if historical cyclical patterns are repeated, that we are on the eve of a pronounced upturn in consumer spending that could continue for many months.

• On the other hand, the possibility cannot be ignored that such upturn as may occur in consumer buying, particularly of durable goods, will prove to be somewhat feeble and of shorter duration than previous post-World War II cyclical upturns.



This is not 1949, 1954, or 1958. The tremendous pentup demand for goods, that existed at the end of the war, has been filled.

New family formations are in a declining phase and, it should be remembered, it is primarily the younger couples and younger families that need more goods of all kinds than the older families, and that are more inclined to use instalment credit to finance their purchases.

• Even though consumers have held down their new borrowings for a number of months, they still are carrying a mountainous load of instalment indebtedness. Total outstanding indebtedness of $42.6 billion at the end of August was equal to 14.3 percent of disposable income. Since many families do not use instalment credit, the percentage for those who do was substantially larger.

New Prestige Symbols

There is distinct evidence, as witnessed by the rising popularity of the more economical "compact" cars, that the American public is in process of changing its prestige symbols.

To a certain extent, this might be described as lessened desire for possessions and greater desire for the cultural.

Many families, who wanted the newest and biggest automobiles for example in the earlier postwar period, now prefer to keep their old cars longer and spend their money on vacations, including trips to Europe.

Another and most important cultural objective is sending the children to college. For many families, this is becoming an important prestige symbol.

Prospensity to Save

The percentage of young people entering college has risen substantially in recent years and it is estimated that, within only a few years, 25 percent of those of college age will be in college.

The number of children per family is larger than it used to be. This in itself imposes a greater strain on parents who are trying to give their children the benefits of higher education.

On top of this, the cost of a college education has risen by leaps and bounds and is scheduled to continue to mount in the years ahead.

This means that, long long before a youngster even reaches high school age, his parents must begin to save regularly a fairly substantial portion of their income for his college education.

Those economists who have been puzzled over the increasing propensity of consumers to save more and spend less undoubtedly must be those who have no children in college or headed for college.

To an ever increasing extent, those parents who are planning financially for their children's future are "out of the market" for goods except for necessary replacement.

People Are Fed Up

Many consumers have become completely disgusted with the inferior quality and poor workmanship in so many types of durable goods. They have learned the hard way that, in numerous instances, beautiful finishes adorned with much chrome are merely the trappings for a "bunch of junk." They have found, in all too many cases, that manufacturers' claims of high quality and good performance are meaningless and that so-called "guarantees" are merely so much paper.

This is a severe indictment of American manufacturers. In all fairness, it must be said that there are producers who never have let down the bars and who are turning out quality merchandise. Also, there seems to be a concerted effort, on the part of some who slipped badly in the earlier postwar years, to improve the quality of their products.

However, there still is too much shoddy merchandise being turned out, and *(Please turn to page 154)*

Inside Washington

BY "VERITAS"

WASHINGTON SEES:

Egyptian President Gamal Abdel Nasser's ambitious dream of a Pan-Arabic empire under his domination is now definitely ended. The successful Syrian revolt against his dictation has completely shattered any prestige he may have had from one end of the Mediterranean to the other.

Russian diplomatic recognition of Syria may even omen the withdrawal of further military and economic aid to the Egyptian strong man. Diplomatic recognition of Syria by the United States will further damage him, especially in Algeria and Tunisia — two main objectives in his plan to create a solid United Arab Republic.

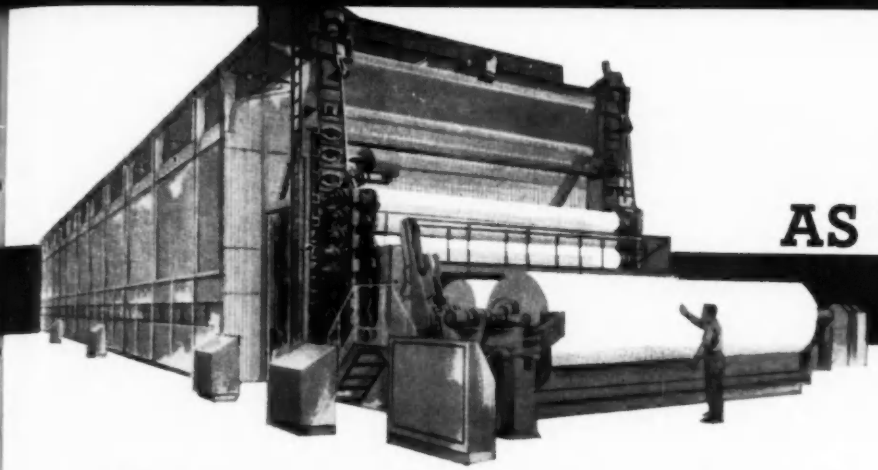
Nasser's two weaknesses sprang from the decline of the Syrian economy and the unreliability of the Egyptian Army. The Syrians, fully aware that they were being milked of valuable resources by the Egyptians, simply decided to "throw the rascals out."

His quick withdrawal of military forces (primarily paratroopers) was necessitated by the fact that his fighting forces are not fighters. Experts here do not rate the Egyptian Army highly; they find them unwilling to face real gunfire, and serving primarily because military service means three square meals a day, adequate shelter and privileges not available in the civilian life of a not-too-healthy economy.

Nasser will very possibly be obliged to limit his activities to Egypt itself if he is to hold his place at this time, for the rupture with Syria will undoubtedly strengthen the opposition. There is the possibility too that the oil industry in both England and the United States may benefit from Nasser's decline and from Russia's discomfiture over a rightest coup, which the latter tried to hide by swiftly recognizing the new regime. Nasser has long been antagonistic to the oil companies, and Russia has earned Arab animosity by undercutting prices and disrupting markets for Middle East oil.

NEW JERSEY'S November 7 Gubernatorial election is drawing close attention here and is of considerable worry to Democratic Party chieftains, including the man in the White House. Grapevine from national headquarters of the Democrats is that GOP candidate, former Labor Secretary James P. Mitchell, despite the handicap of crutches, is running way ahead of the Democratic nominee, former State Superior Court Judge Richard J. Hughes. Democratic fears are that a Mitchell victory will "start a trend" that would carve the Garden State's Democratic House representation—now six—by as many as three seats. Deeper in the background, from the Democratic National Committee's viewpoint, is fear that a substantial Mitchell victory in New Jersey will start the snow-ball rolling and spark other Republican successes in the 1962 Congressional campaigns. Educated guesses here are that the fear is fully justified.

SENATE rules revision (primarily Rule XXII, which presently makes it almost impossible to invoke cloture), "ditched" in the closing days of the last Session, will be to the fore early next year, only to lie on the table until the closing days when it again will be passed over to another year. Even the most ardent proponents of change—both in and out of the Senate—are agreed that it is next to impossible. In the whole history of Senate filibusters it cannot be found that they have proven detrimental to desirable legislation; on the contrary the records pretty clearly demonstrate that unlimited debate has often killed harmful legislation. Southern opponents of the anti-filibuster rule, as the liberals would write it, have made a strong point in their argument that present laws are adequate to the protection of civil rights—that objective of the change now is to alter the national economy; put more Socialist legislation on the books. Oddly, some of those who have been in the forefront for modifying Rule XXII are beginning to be in agreement with their Southern colleagues.



AS WE GO TO PRESS

Rayburn's Absence From Capitol Hill Next Year Will Seriously Hamper New Frontiers Legislative Program. The Democratic Party of the House simply lacks a leader of the ability that was Rayburn's. Even the Party of the opposition is in agreement that "Mr. Sam" was perhaps the most adroit politician of all time. He could get legislation through the House when even members of his own Party privately declared it "impossible." He never used a threat, only persuasion and as a skilled parliamentarian he could maneuver the "toughies" before the House with a minimum of friction, never leaving lasting scars on those who crossed him.

The selection of an able successor to the veteran Speaker even now poses a grave problem for the White House as well as for the Democrats of the House. It is something that will have serious consideration over the scant two months before the next Session. Washington guesses on the final choice are "a dime a dozen," most of them qualified with the frank acknowledgment that Democratic leadership of the caliber necessary to handle next year's unfinished business "is simply not in sight at the moment."

Seemingly having greatest momentary support among his Democratic colleagues is Rep. John W. McCormack (Mass.), Majority Floor Leader, and speaker pro-tem in Rayburn's absence. It is believed, however that the Administration will offer back-stage opposition because the Massachusetts legislator displayed considerable ineptitude in handling Administration bills as the Session drew to a close. Also, McCormack once sharply disagreed with the President on the issue of aid for parochial schools, as well as for public schools. The measure never cleared the House Rules Committee, and there is some belief that McCormack's stand that the religious educational institutions be included, has relegated him to the Kennedy doghouse. It will be an "issue" next year, but even serious consideration is doubtful.

Nixon's Prospects Down-Graded In Washington. Despite adjournment of Congress a few California political wiseacres — of both Parties — are in the Capital City; some of whom will wager large odds that former governor Goodwin Knight will eliminate Mr. Nixon in the primary. On another GOP angle, you can get assurance here that former President Eisenhower is definitely the "brains" of the Republican Party, despite Nixon's position as titular head.

Oil And Natural Gas Well Depletion Allowances May Be Trimmed in Next Congressional Session. This is due to fact that Speaker Sam Rayburn will no longer be on Capitol Hill. The Texan, always a foe of any reduction, managed to hold the Way & Means Committee "in line," so much so that no bill has even come out for Floor consideration. During the last Session, however, proponents of depletion showed considerable strength within the 25-man tax-writing group and at one point were within two votes of forcing the Committee to seriously debate the issue. The present Chairman, Rep. Wilbur D. Mills, of Arkansas, has "carried the ball" for Rayburn in Committee. If Mills should become the next Speaker of the House, and he presently has a fighting chance, he would automatically leave Ways & Means, increasing the possibility of a favorable report for reduction. Vice President Lyndon B. Johnson, when Majority Leader of the Senate, successfully fended off efforts in that body, but now that he has moved up

from the Floor and is burdened with personal diplomacy for the President, may find himself ineffective insofar as the depletion issue might develop.

No General Steel Price Advance Anticipated Here. There is a confident feeling in upper government echelons that there will be increases only in certain specialty categories, but not "too heavy," and these maybe not before the end of the year. Authoritative Washington sources seem positive on this score, pointing up that management — by holding the line as closely as possible — will have much to gain in public esteem, and have a much stronger bargaining position when contract negotiations with the union open next year.

Rail Labor-Management Relations Move Into Critical Stage, With Answer Several Weeks Away. The Special Presidential Study Commission on rail labor work rules (featherbedding in simpler language) has ended the hearing stage of its proceedings, begun earlier this year. Confronting the 15-man group are some 7 million words of testimony and countless charts and graphs. Deadline for findings and recommendations is December 1, with privilege of a 90-day extension if mutually agreed to by labor and management. The five public members have no say-so on the extension, but will accede to demands for further study.

During the protracted proceedings, both sides — labor and management — have been pretty close to adamant in their respective positions. Public members of the Commission have been rather close-lipped in their views, but a few "leaks" would indicate they may side with the carriers. To be borne in mind is fact that the advisory group's recommendations are binding on neither party. Only acceptance by both sides, or national legislation, can effectuate any recommendations which may emerge. In the meanwhile, Sen. John L. McClellan (D. Ark.) in the closing days of Congress, introduced legislation to bar strikes in the transportation industry (any sector). Odds against passage are heavy unless the rail unions completely ignore or vigorously protest the Commission's findings and recommendations.

LOOKING AHEAD

Barring war, reassembly of the Second Session of the 87th Congress is only 54 days in the future — just two days short of eight weeks. Piled up for consideration and several pieces of New Frontiers legislation, passage of which could damage the nation's economy, swing us closer to a powerful Socialist-dominated Washington bureaucracy with States' rights — even individual rights — items for history. The only bright gleam in the dismal picture is that the New Frontiersmen will not have the loyal and unflagging support of Speaker Rayburn, whose loyalty often surpassed his own conviction.

Taxes: Traveling at his present spendthrift rate, the President will have to ask an increase in taxes — certainly will have to ask a hike in the debt ceiling. Either of which would be dangerously inflationary.

Aid To Education: Federal assistance to the States and Cities for classroom construction and teachers' pay is to be brought up, but will probably fail.

Minimum Wage: There will be efforts toward expansion of coverage but it will fail — definitely.

Medicare Through Social Security: This has a 50-50 chance, perhaps slightly less. It will be an early "must" in the President's State of the Union Message to Congress, but opposition from outside sources, as well as in Congress, may prove too powerful.

Defense Spending: This will go up, but with Congress taking a bigger hand in the allocation of funds — perhaps a great deal more for the Polaris equipped subs, and continued insistence on speeding the B-70 supersonic bomber plane.

Automation: Administration's proposal for funds to provide retraining for workers displaced by new production methods, as well as increased unemployment compensation during the training period — stymied in the just-ended Session of Congress — will have slow going. Congress still feels the job is one for organized labor and management — not one for all the taxpayers.

COMMONWEALTH DEPENDENCIES NOW UNDERGOING CHANGE

1. *Bermuda*
2. *Bahamas*
3. *West Indies*
4. *British Honduras*
5. *British Guiana*
6. *Falkland Is.*
7. *Tristan Da Cunha*
8. *St. Helena*
9. *Ascension*
10. *Sierra Leone*
11. *Gambia*
12. *Gibraltar*
13. *Malta*
14. *Persian Gulf Shiekdoms*
15. *Aden*
16. *Uganda*
17. *Tanganyika*
18. *Rhodesias & Nyasaland*
19. *South-West Africa*
20. *Bechuanaland*
21. *Basutoland*
22. *Swaziland*
23. *Zanzibar*
24. *Kenya*
25. *Seychelles*
26. *Maldive Is.*
27. *Mauritius*
28. *Singapore*
29. *Hong Kong*
30. *British N. Borneo*
31. *Sarawak*
32. *Papua (Aus.)*
33. *Western Pacific Is.*
34. *N.E. New Guinea (Aus.)*

BRITAIN'S AGONIZING REAPPRAISAL and DECISION

—*Effect on Commonwealth of Britain's entry into EEC*

By W. E. GREENING

- ► **Reaction by the various Dominions to the likely shift of Britain's traditional Commonwealth system of preferential tariffs**
- ► **Difference in status between larger Dominions and the natural resource countries among the smaller Dominions facing new competition from Western Europe**
- ► **Changes in trade position of the Dominions in past decade — and the outlook**

AFTER a long hesitation and much debate, it is now clearly established that the British Government has made the vital decision to enter the European Economic Community (EEC). Prime Minister Macmillan has already won support for this realignment from the House of Commons, and specific negotiations have been held with the governments of France, West Germany, Italy and other Western European countries concerning her entrance into the European Common Market.

This startling reversal in Britain's traditional economic orientation is a result of another one of those agonizing reappraisals that the harsh realities of the post-war epoch have forced upon so many countries.

There is no doubt that the scheduled entry of

Britain into EEC will have far-reaching effects on the patterns of British external trade and, especially, upon her trade relations with the other regions of the British Commonwealth, including Canada, Australia, New Zealand, India, Pakistan, Ceylon, the Malay States and the new Dominions and dependent territories in Africa and the islands in the British West Indies. These territories represent a vast aggregation of population and internal resources and the exports and imports from a considerable proportion of world trading operations.

It is quite understandable that the Governments of the British Dominions should be concerned about the alignment the Macmillan Administration in London is preparing to inaugurate with those Western European countries which are already members of the European Common Market. The larger Dominions, such as Canada and Australia, have small populations in proportion to their size and economic development, and are vitally dependent on a high level of export trade for their national prosperity and economic well being.

The same thing is true, although for different reasons, for the Dominions and dependent territories in the tropical regions of the world, such as Asia and Africa. These countries are very largely dependent for their income on the sale of a few natural products, such as sugar, rubber, jute, rice and tea, in the markets of the highly industrialized countries, notably the United Kingdom and the United States.

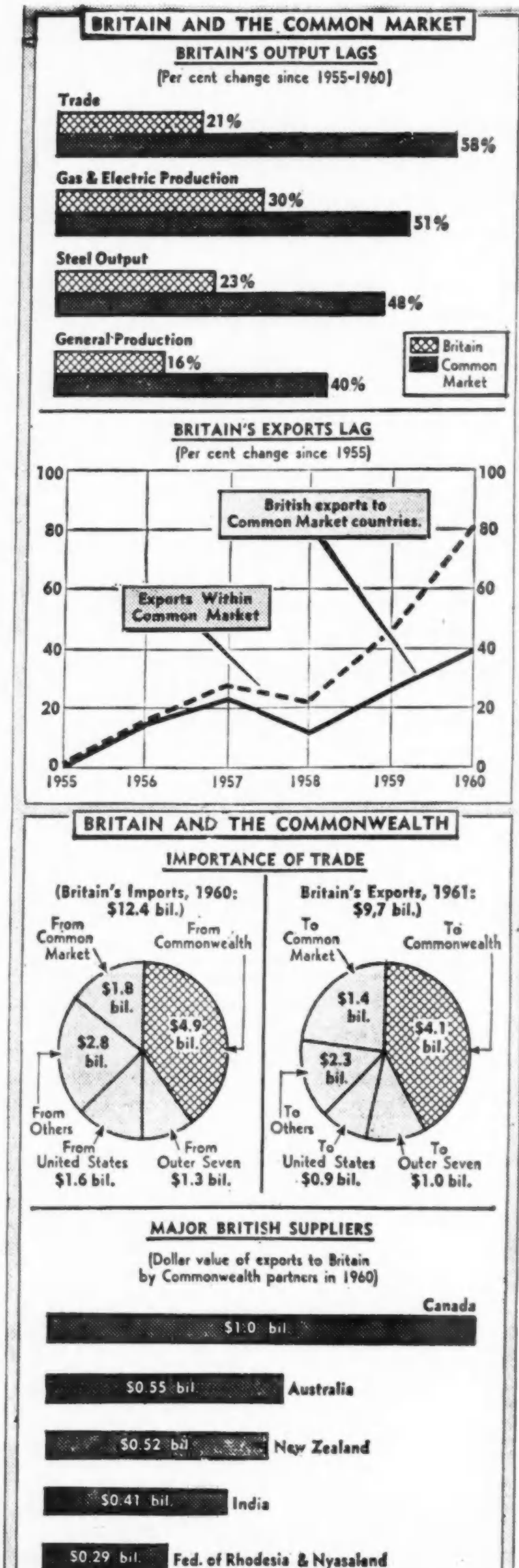
Loosening of Commonwealth Trade Ties Threatened

• Under the terms of the British Commonwealth system of preferential tariffs which was established at the Imperial Economic Conference at Ottawa in 1932, many, although not all, exports of raw materials, agricultural products and manufactured goods by the Dominions and dependent territories have enjoyed favored terms for entrance into the markets of the United Kingdom during the past three decades. And partly, although not entirely, because of these preferences, a large percentage of the foreign trade of some of these Commonwealth countries is still concentrated in this market. For example, during 1960, 90% of New Zealand's cheese exports, 94% of her meat exports and 89% of her butter exports—comprising a very substantial percentage of her total export trade—went to the United Kingdom. In the same year about 40% of the total export trade of Australia, including large quantities of wool, butter, livestock and beef, went to British markets.

• In the case of Canada, although the percentage of her total exports going to the United Kingdom is a good deal smaller, the mother country remains an important market for certain of her natural and farm products, including asbestos, nickel, wheat and cheese, and during the past two or three years Canadian exports of such manufactured products as aluminum wares, steel, newsprint, pulp and paper products to the United Kingdom market have experienced a notable increase.

The Impact

For a variety of different reasons, the Dominions are concerned about the loss of tariff preferences in



the United Kingdom market, for despite the changes in trade that have taken place, the Commonwealth members clearly consider these preferences well worth preserving. And, of course, under the arrangements by which the United Kingdom would enter the European Common Market, they would inevitably disappear.

An immediate cut of 30% or 40% (depending upon the date entry is effected) in British tariffs on European goods would be required—a sudden shock to the Commonwealth and to domestic British industry alike. The Dominions are also concerned about the tariff rates that would be set upon their natural resources and farm products thereafter entering the enlarged Common Market area. The vision of the unrestricted entrance of competing farm products from such Western European countries as France, Holland and Denmark into the United Kingdom, a very likely consequence of the current discussions, is also naturally disturbing to the Dominions.

Decline in Britain's Common Interest With the Dominions

But the United Kingdom now views this whole matter of trade relationships from a standpoint radically different from the majority of the members of the Commonwealth. In brief, it has decided that the neighboring countries of Western Europe offer greater economic opportunities from the long range point of view, despite some immediate pains in this realignment. For this reason it is apparently willing to abandon the tariff preferences which many classes of its own manufactured exports have enjoyed in the markets of various Commonwealth countries during the past several decades. In terms of total population this may look like a loss, but such thickly inhabited countries as India, Ceylon and some of the central African states remain largely underdeveloped and with very low purchasing power. Such European countries as France, West Germany, Italy and Belgium, on the other hand, offer rapidly growing markets and immediate participation in a noteworthy economic boom.

Already, during the past two decades, the importance of Commonwealth trade to the United Kingdom has been steadily declining. In spite of the existence of the tariff preference, the proportion of the United Kingdom exports going to the countries in the Commonwealth has declined from 40% to 25% in the twenty-year period between 1939 and 1959.

The British Balance of Payments

($ million: Inflow is +; Outflow is —)

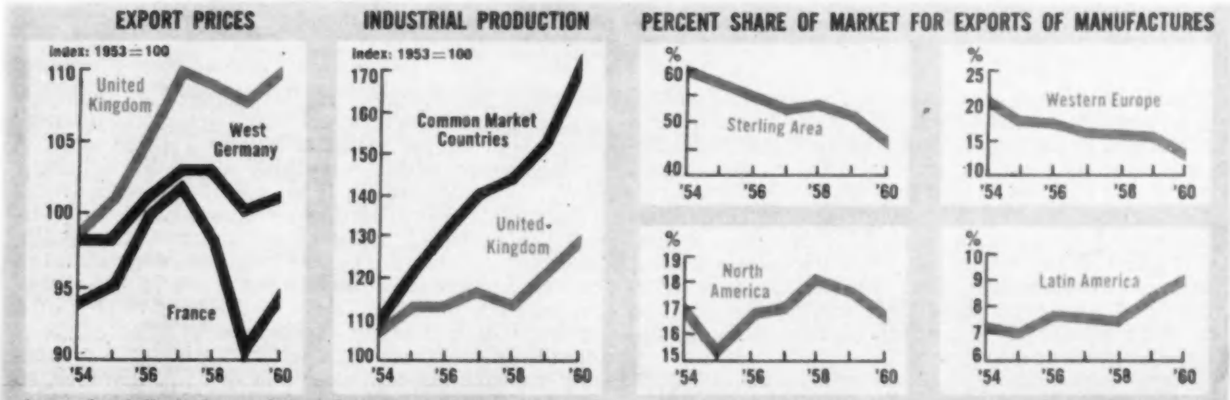
	1960	1961 (1st Qtr.) (Annual Rate)
Imports	—11,416	—11,704
Exports	+10,391	+11,054
Trade Balance	— 1,025	— 650
Government *	— 803	— 952
Shipping	— 70	
Investment Earnings	+ 501	+ 975
Other	+ 434	
Net Invisibles	+ 62	+ 23
Current Balance	— 963	— 627
Long-Term Capital Movements	— 563	+ 392
Current and Long-Term Capital Balance	— 1,526	— 235
Short-Term Capital Movements **	+ 2,459	— 650
Transactions with Non-Territorial Organizations ***	— 437	+ 45
Net Short-Term Capital Movements	+ 2,022	— 605
Change in Reserves	+ 496	— 840

*—Mostly military.
**—Sum of changes in overseas sterling holdings, balancing item, and miscellaneous short-term capital movements.
***—Principally International Monetary Fund.

Misgivings by the Commonwealth

All of these questions and objections came strongly to the fore during the recent Commonwealth Conference at Accra, in the West African Dominion of Ghana (the former Gold Coast), at which representatives of the United Kingdom as well as of all the Dominions and dependent territories were present. These Commonwealth spokesmen, led by the Canadian delegation, took a strong stand in opposition to the entrance of the United Kingdom into the European Common Market unless the MacMillan government could *(Please turn to page 158)*

Trends In Prices And Production Affect British Share of Exports



Sources: Organization for European Economic Cooperation and (British) National Institute of Economic and Social Research

THE RAILS COME TO LIFE

— With some real opportunities in the making

By JOHN MARCHESI

- **How vigorous is the rise — the technical and fundamental positions analyzed — the industries upon which good business in the fourth quarter depends**
- **What is being done to solve costs — realistic possibility in a labor pact — what contribution from Washington**
- **Position of the various classes of railroad stocks and the individual rails — those in the best position — where possibilities now exist — those still likely to lag**

RAILROAD stocks startled the financial world recently, coming back into prominence after a prolonged period of market lethargy. As is characteristic of the group when it is in favor, the upward move was both swift and impressive. On October 4, the carriers spurted 5.40 points on the Dow-Jones Railroad Average, tacking on 3.7% in value for that day alone! Many a startled investor has been asking, why did the rails suddenly erupt back to such vigorous life? And even more significantly, the question is being asked, will the group continue to make upside progress in the market?

Explanations: The Chartist vs. The Fundamentalist

Turning first to the question of why it did happen, one will get different replies depending upon the philosophy of the "expert" supplying the answer. Ask a *chartist* why the rails moved up so sharply and be prepared for something along the following line. "Compression" will be one of the terms most frequently invoked by the technician when describing the narrow trading range which contained the rails for roughly the period from mid-August to the end of September. If he invokes a simile, the chartist may compare the action of the rails to that of a spring which is being continuously squeezed into a narrower container. Just as the spring will eventually rupture the container and fly violently free, so did the rails finally break out of their narrow trading range and they will continue to run free until

Statistical Position of Leading Railroads

	Gross Revenues 1st 8 Months —(Millions)— 1960	1961	Percentage Change %	Operating Ratio Full Year 1960	1st 8 Months 1961	Net Per Share * Full Year 1960	1st 8 Months 1961	Indicated Div. 1961†	Recent Price	Div. Yield
Atchison, Top. & Santa Fe	$414.1	$402.1	— 2.9%	78.5%	77.1%	$1.87	$1.05	$1.45	27	5.3%
Atlantic Coast Line	111.8	107.1	— 4.2	80.4	79.5	4.02	1.95	2.00	44	4.5
Baltimore & Ohio	262.8	225.2	—14.3	82.2	88.1	.08	d9.75	.80	33	2.4
Chesapeake & Ohio	232.4	199.4	—14.2	77.1	84.2	5.15	1.83	4.00	59	6.7
Chic., Milw., St. P & Pac.	153.0	144.7	— 5.4	81.6	81.0	d .60	d1.00	—	18	—
Chicago & Northwestern	138.8	145.4	+ 4.5	86.2	81.5	d14.45	d1.87	—	25	—
Chic., Rock Island & Pac.	146.6	139.4	— 4.9	81.6	77.4[4]	d .60	1.39	1.60	26	6.1
Del. & Hudson	29.6	27.2	— 8.1	81.5	81.3	1.91	.37	1.40	18	7.7
Denver & Rio Grande W.	51.0	49.5	— 2.9	66.2	68.4[1]	1.36	.78	1.00	22	4.5
Erie-Lackawanna R. R.	148.8	137.1	— 7.8	88.1	93.5	d4.39	d4.75	—	5	—
Great Northern Ry.	161.0	150.6	— 6.4	78.9	83.1	3.41	1.44	3.00	46	6.5
Gulf, Mobile & Ohio	51.2	50.9	—	79.1	75.9	.92	1.41	1.50	26	5.7
Illinois Central	172.6	163.5	— 5.2	81.1	80.3	3.56	2.29	2.00	47	4.2
Kansas City Southern Sys.	45.9	42.6	— 7.1	59.8	62.5	8.07	4.60	4.00	83	4.8
Lehigh Valley	34.8	28.9	—16.9	91.4	98.3	d2.14	d4.41	—	5	—
Louisville & Nashville	151.4	146.8	— 3.0	81.9	78.7	4.28	2.49	3.00	58	5.1
Missouri-Kan.-Tex.	38.8	38.0	—	75.6	75.3	d2.16	NA	—	4	—
Missouri Pacific "A"	201.2	193.5	— 3.8	76.7	73.7	6.32	3.44	2.40	47	5.1
New York Central	457.0	394.7	—13.6	84.0	89.9[1]	.16	d4.01	—	19	—
N. Y. Chicago & St. Louis	101.3	85.5	—15.5	71.7	76.0	2.87	1.28	2.00	42	4.7
N. Y., N. H. & Hartford	90.7	83.0	— 8.4	90.3	99.8[1]	d15.90	d15.47	—	2	—
Norfolk & Western	165.2	155.7	— 5.7	59.7	58.8	8.15	4.65	5.00	106	4.7
Northern Pacific	116.8	108.8	— 6.9	84.5	87.9	3.10	1.48	2.20	44	5.0
Pennsylvania	601.6	528.6	—12.1	82.8	85.5	d .59	d1.05	.25	15	1.6
Reading	70.7	63.6	—10.0	83.3	91.7	d1.17	d .64	—	11	—
St. Louis-San Francisco	87.1	82.9	— 4.8	78.5	79.0[1]	2.61	.86	1.00	19	5.2
Seaboard Air Line	107.8	103.9	— 3.7	78.7	78.7	3.10	1.44	1.60	31	5.1
Southern Pacific Sys.	518.4	509.5	— 1.7	79.1	75.4	1.75	1.69	1.20	28	4.2
Southern Railway	173.2	168.6	— 2.6	70.0	72.9	4.31	2.04	2.80	59	4.7
Union Pacific	325.8	323.1	— .8	72.8	73.3	2.73	1.66	1.60	36	4.4
Western Pacific	30.7[1]	30.1[1]	— 1.9[1]	79.7	76.2[1]	2.21	1.12[1]	1.00	27	3.6

*—Before funds.
†—Based on latest dividend rate.
d—Deficit.
NA—Not available.
1—1st 7 months.

Atchison: Earning power of this strong transcontinental system is on the comeback trail. Dividends, including extra, are secure. **A1**

Atlantic Coast Line: This profitable railroad is drawing close to union with the Seaboard. Actual merger could occur in 1962, if ICC gives the green light. Dividend secure. **B1**

Baltimore & Ohio: Merger with the C.&O. is being delayed, reflecting tough opposition from New York Central and the generally fluid consolidation pattern in the East. **C4**

Chesapeake & Ohio: Earning power of this financially strong system is not coming up to earlier expectations in 1961. Even so, the $4 annual dividend is regarded as secure. **A4**

Chicago, Milwaukee: This transcontinental railroad may well find a home as part of another system. Only token dividends are seen in 1961. **C4**

Chicago & Northwestern: This speculative railroad is on its way to a fairly good showing in 1961. No dividends in sight. **C1**

Chicago, Rock Island: The worst may be over and the current dividend could well hold despite slim coverage. **C3**

Delaware & Hudson: Despite a strong financial position, the recently reduced dividend could be in for another cut. **C4**

Denver & Rio Grande: One of the more efficient roads in the country, the dividend is secure. **A3**

Erie-Lackawanna: Hard pressed to stay solvent, the recently merged system needs a higher level of traffic to survive. **D4**

Great Northern: Drought conditions have pared 1961 earnings, but the $3 dividend is expected to hold, despite slim coverage. **A4**

Gulf, Mobile & Ohio: A potential merger candidate, earnings appear to be on the way back. **C3**

Illinois Central: This coal road is making an excellent earnings showing in 1961. Dividend quite secure. **B1**

Kansas City Southern: A good earner, this railroad serves a growing economy. Dividends may well be increased next year. **A1**

Lehigh Valley: This hard-pressed road will eventually be absorbed into the parent Pennsylvania system. **D4**

Louisville & Nashville: This railroad's fortunes have begun to improve and earnings are climbing again. Dividend secure. **B1**

Missouri-Kansas-Texas: This small carrier is solving difficult financial and operating problems. No dividends in sight. **C1**

Missouri Pacific: Earning power has held up fairly well for this system and prospects appear to be improving. **C2**

New York Central: Earnings will improve sharply in the months ahead, but considerable problems remain to be solved. **C3**

New York, Chicago & St. Louis: Pending merger with Norfolk & Western, the shares of this company will rise and fall with those of the N.&W. The dividend is secure. **B2**

New Haven: Trustees are attempting to find out if the road can be reorganized. **D4**

Norfolk & Western: This highly profitable carrier has a good future and the dividend is secure. **A1**

Northern Pacific: After a slow start, earnings are picking up and will provide ample coverage for the dividend. **B3**

Pennsylvania: The principal attraction of these shares is their interest in Norfolk & Western. Someday, this road may head up an Eastern network spearheaded by its profitable affiliate. **D3**

Reading: A once proud system has seen its earning power wither away. No common dividends are in sight. **D3**

St. Louis-San Francisco: Sale of the company's interest in the Central of Georgia will improve a poor working capital position. **C2**

Seaboard Air Line: Considering the possibility of merger with Coast Line, these shares merit retention. **B2**

Southern Pacific: Extensive non-rail interests add to the appeal of this huge transportation system. **A1**

Southern Railway: The leading system in the South, a sharp earnings comeback may be seen in 1962. **A1**

Union Pacific: Long regarded as the premier situation in the rails, this oil-rich company retains its high status. **A1**

Western Pacific: This tiny railroad is the object of fighting among titans in the West. Outcome obscure. **B2**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

the immediate pressure has been dissipated.

The *fundamentalist* would hardly talk in such terms when undertaking to explain why the carriers suddenly hit the market spotlight again, but would probably discuss more basic factors.

► First and foremost, the railroad earnings picture is beginning to brighten, following a long period of disappointing news. Based on preliminary figures, Class I net income amounted to $50 million in August of this year, up from only $30 million in the like 1960 month. August was, in fact, the third consecutive month of year-to-year improvement in railroad earning power, but it marked the first time that the gain occurred on slightly higher gross revenue than had been realized in the year before. Perhaps the real turn in rail fortunes is beginning, now that the revenue trend is moving upward.

Tangible Grounds for Optimism

With the railroad earnings picture starting to show some significant improvement, it is conceivable that investors are now beginning to pay more attention to situations where the dividend coverage has recently been none too impressive. Considering the large yields available on many individual rail stocks compared with most industrial and utility issues, it is easy to see why any turn for the better in the industry's fortunes should immediately provoke renewed interest in the group.

Finally, there is the feeling that the Government is at last going to "do something" for the railroads, particularly in the area of the passenger burden which is plaguing such a large segment of the group. Moreover, some quarters believe that the Government may even push labor into a more realistic attitude toward the abolition of "featherbedding" rules. And a large body of investment opinion believes that the I.C.C. will decide in favor of most, if not all, railroad merger proposals which reach its desk. Add together all these fundamental factors and there is reason enough to explain the resurgence in railroad securities.

To reach the most accurate explanation of the upswing in rail prices, it is probably wisest to combine the answers of both the chartists and the fundamentalists to arrive at a composite somewhat as follows: the rails started to move because the basic earnings picture was beginning to take on more hopeful signs.

Traders, in the meantime, had sensed that the timing was right to play the rails and had slowly been accumulating positions in these issues (the compression the chartist was talking about). With the rails naturally responding to the good economic news and the traders having siphoned off the floating supply in many individual cases, a sharp upside breakout was the logical consequence. *In a very real sense, it might be said that the play in the rails was born of fundamental factors, but heightened by technical considerations.*

Three Major Traffic Components: Autos, Steel and Coal

The question now is how much further will the rail uptrend carry, or is this the top of the rally? For some clues to the correct answer, a look at the fourth quarter outlook for certain key industries should be helpful. Favorable prospects for steel, autos and coal would go far to assure an improvement for the carrier group, since these three areas of the economy generate an important portion of all the traffic that the rails carry.

Autos—Turning first to the significant automobile picture, the view is clouded—as usual. New car sales are still at low ebb and if used as a barometer of automobile volume over the next twelve months, the outlook would be quite poor. Fortunately certain mitigating circumstances go far to explain away the recent disappointing pace of vehicle sales. • First, strike trouble, initially at General Motors and then at Ford, cut down the early supply of 1962 models. • Secondly, with the cleanup of 1961 models done at an orderly pace and no huge excess on hand, the dealers are under little incentive to make their usual give-away drives to clean out the old stock. • Third, the troubled international situation has undoubtedly restrained the consumer to some extent, although it is difficult to say how much.

On the other side of the coin, there exists a considerable potential for automobile sales which could make the 1962 model year the best one in quite some time. Other plus factors include an aging car population, an impressive level of disposable income and considerable untapped credit.

Steel—Assuming these elements of strength can be converted into automobile sales—as anticipated—the steel outlook takes on a considerably brighter hue, reflecting the importance of Detroit as a user of metals and other raw materials. With improved automotive demand and continuing recovery in other sectors of their demand curve, the steel people could produce and ship steel at a fairly impressive clip in the fourth quarter of 1961.

Coal—It naturally follows that more coal would be required for the steelmakers and other industrial users, particularly since stockpiles are at levels which might be considered to be low when the economy is humming along. Add in continued increases in takings from the nation's utilities and you get a much brighter outlook for coal than has existed for some time, particularly with the export market showing some small signs of revival.

► It's not going to be a one-way street for potential railroad volume in the fourth quarter, however, since the picture in *grain* and *ore* is not particularly promising. It is conceivable that stored grain may move in quantities sufficient to offset the loss of this year's crop in many drought-afflicted areas, but this is not likely to happen in iron ore. Even so, the overall railroad traffic picture for the fourth quarter is quite promising.

Good Control of Expenses Indicated

Assuming a favorable traffic and revenue outlook for the period immediately ahead, the further important question arises, how well will the railroads keep costs under control? Judging by the August experience of representative roads, prospects appear to favor continued tight rein over expenses.

The **Santa Fe**, for example, cut operating expenses 2.6% below those of the like month in 1960 while gross was scoring a year-to-year gain of 2.9%. Another western carrier, the **Western Pacific**, reduced operating expenditures 3.8% even while revenues were advancing 5.4%.

The hard-pressed Eastern carriers continued to pull their belts in as evidenced by the action of **New York Central**, which pared expenses 8.4% to counteract a 1.1% dip in receipts. **Baltimore & Ohio**, another ailing situation, *(Please turn to page 156)*

DISCOUNT SELLING REVOLUTIONIZING RETAIL STORE OPERATIONS

— *Some Major Moves*

By EDWIN CAREY

- **The changes taking place in marketing of consumer goods — will discounting be carried too far**
- **The various mergers in process and contemplated — the full story of the big Montgomery Ward-Interstate Department Stores merger — what's ahead**

THE bid by **Montgomery Ward** to acquire **Interstate Department Stores** is perhaps this year's biggest retail news item. It represents a major move to "join the enemy," as Interstate is now well-known for its successful invasion of the discount field; here is one leopard that managed to change its spots, and perhaps Ward would like to do the same.

And no wonder; the basic trend toward discounting has gained momentum this year as never before. For example, take the staggering gains made by Korvette. Sales in the fiscal year ending July 31, 1961, soared to $180 million and earnings to $3.07 a share versus sales of $105 million and earnings of $0.68 only three years ago. More than one distinguished department store executive expected the fad of discount houses to slow down in 1961, but the reverse has been true. It is estimated that sales of discount houses will increase by no less than 40% to $4.1 billion in 1961 from $2.9 billion in 1960. This volume is now becoming sizable compared with department stores, which have annual sales of about $14 billion.

It is obvious, of course, that this 40% gain would be more a transfer of business from other outlets rather than new sales; the joy is somebody else's headache. Indeed, the discount trend is changing the very appearance of Main St. The small specialty store operator has been hard hit and could in time become an extinct animal, or with luck a

rare one like the platypus. The department store bargain basement is also a casualty as its usual clientele increasingly favors the suburban discount house. Variety store executives are also fidgeting nervously as their budget-minded customers gravitate to the discount house. **Woolworth** now intends to set up a chain of discount houses under the name of Woolco with 18 discount stores planned as a starter. The retailer that is perhaps hardest hit by this trend is the third-rated department store in each community. The number one and often the number two stores apparently have not been greatly bothered by the discount house as they have a faithful clientele and their reputations in the community constitute a strong asset.

The Story of Interstate

Interstate Department Stores was formerly a drab operation with too many third-rated stores and a record through 1958 of sliding sales and declining profit margins. Management surveyed this situation in early 1959, and unlike many department store executives at the time, refused to place the blame on either the weather or the '58 recession. Basic trends were against Interstate, and it would have been some job to turn them around. Determined to row down stream rather than against the current, Interstate, in April, 1959, purchased White Front Stores, which owned two discount houses in California. Before many more months had passed, Interstate, now moving decisively, had closed several unprofitable department stores and purchased Topps Stores, a ten-store discount chain in the Northeast and in Illinois. Next a new discount chain under the name of Family Fair was begun. Now, 21 of its 63 stores are discount stores and next year's plans call for the addition of 20 more.

Results were dramatic under any manner of measurement. By the year ended January 31, 1961, Interstate's sales had climbed to $114.3 million from $65.7 million only two years earlier. Earnings more than doubled, hitting $1.4 million or $1.38 per share vs. $645,000 or $0.65 per share. For the current year a further earnings gain of 25% is predicted, with sales perhaps reaching $170 million. It is also noteworthy that for the first time in many years Interstate made a profit this year during the first half; thus, entry into discounting seems to have smoothed out some of the seasonal variation.

The Merger

Interstate's phenomenal success contrasts sharply with Ward's disappointing results; the latter's earnings last year declined to $1.07 per share from $2.28 the previous year, necessitating a dividend cut. The outlook for this year is not much better; at the half-way mark earnings were 26¢ vs. 34¢ last year. In terms of Montgomery Ward's volume (a record $1,248,934.000 last year) Interstate is small—only 9.3% of Ward's size—and any direct benefit to Ward in earnings per share from the merger would be small. (If Ward's earnings for the year ended February 1, 1961, were adjusted to include Interstate net, they would have been $1.09 per share instead of $1.07.)

Clearly the real reason for this merger is not immediate earnings benefit, but rather the acquisition of that priceless asset—good management. The Interstate team would certainly be a help to Ward, should the company decide to enter the discount business in a big way. The shortage of experienced merchandising executives has been a continual problem in recent years for all retailing organizations. For Montgomery Ward this problem has been serious indeed. Under the old Avery regime, literally hundreds of experienced personnel became discouraged and left. More recently some of the company's top men have also departed, including the president, Paul M. Hammaker.

If the Interstate merger becomes effective, S. W. Cantor, Interstate president, will become executive vice president and a director of Montgomery Ward. His principal task may be to instill some of the merchandising flare into the Ward management that is so typical of Interstate. This, of course, would be in the area of discount merchandising, really a skill in itself and certainly one area where Ward's abilities are non-existent. The big mail order and department store would then presumably continue to expand the discount operations and, like Interstate, perhaps close down some of its unprofitable conventional stores. Since Chairman Barr came into the Ward picture in 1955 he has added 52 new stores and 423 catalog offices to bring the total to 529 retail stores and 655 catalog offices. While most of the new stores are reasonably profitable, many of the established downtown stores showed disappointing results last year and this was largely responsible for the overall decline in earnings. Frequent markdowns which were necessary to remain competitive in these stores conflicted with high overhead costs—the result has been a continual squeeze on profit margins.

Of course, one of the principal requirements of a successful discount operation is very close cost control, and this ability, demonstrated in Interstate, should prove to be an important by-product of the merger for Ward. But good cost control, especially in a large department store, takes the imaginative cooperation of all personnel from the president down to the stock clerk. Ward evidently lost this spirit of cooperation years ago, and it cannot be regained overnight. At **Sears, Roebuck,** this type of cooperation is a part of tradition—a loyalty throughout the ranks that is more than simply a result of the profit-sharing plan that makes nearly all employees stockholders.

Will Discounting Be Carried Too Far?

Discounting is a method of mass merchandising that is likely to be with us for a long time. It is more than a fad; it is an economic fact of life. One department store executive even admitted recently that discount houses in time may become just as important in the total retail picture as the contemporary department store. But even so, the discounter's fortunes are not entirely rosy. His profit on every dollar of sales is minute, and it is imperative that he obtain a high volume of sales merely to break even, and a higher volume still, to earn a fair return on his invested capital. Thus, price cutting between discount houses can be damaging—but what they really fear most is loss of volume. In New York, Philadelphia, parts of New Jersey and Long Island, competition between discount houses has become severe, reducing the fruits of labor and capital as everybody tries to increase his volume. The big operators are wisely avoiding these markets, centering their attention on the Middle West and South. Other competitive areas may also soon

Statistics on 14 Leading Department Stores

	1st 6 Months: Net Sales 1960 (Millions)	Net Sales 1961 (Millions)	Net Profit Margin 1960 %	Net Profit Margin 1961 %	Net Per Share 1960	Net Per Share 1961	Full Year: Earned Per Share 1959	Earned Per Share 1960	Cash Earn. Per Share 1960	Indic. 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield %
ALLIED STORES W.C. (mil.) '59–$145.9; '60–$142.9	$291.6	$299.6	.1%	.3%	$.01	$.26	$5.17	$3.71	$6.65	$3.00	64½-41½	60	5.0%
ASSOCIATED DRY GOODS W.C. (mil.) '59–$77.2; '60–$92.2	123.8	133.8	1.8	1.8	1.10	1.13	4.78	4.60	6.67	2.50	92¾-56¼	92	2.7
BEST & CO. W.C. (mil.) '59–$11.9; '60–$12.2	18.5	21.4	2.4	2.1	.76	.79	2.88	2.47	3.41	2.00	41¾-30¾	41	4.8
CITY STORES W.C. (mil.) '59–$60.4; '60–$59.2	118.8	116.9	d.3	d.6	d.15	d.27	1.03	.68	2.02	.60[2]	18 -11⅞	12	5.0
FEDERATED DEP'T. STORES W.C. (mil.) '59–$157.5; '60–$164.9	341.0	360.5	2.9	3.0	.58	.65	1.98	1.92	2.49	1.10	52¼-30⅜	51	2.1
GIMBEL BROS. W.C. (mil.) '59–$62.9; '60–$66.5	178.0	182.8	1.2	1.3	1.02	1.19	4.82	4.55	7.67	2.20	82¼-50½	81	2.7
INTERSTATE DEP'T. STORES W.C. (mil.) '59–$13.6; '60–$12.8	43.5	66.6	d.2	.1	d.12	.06	1.37	1.33	2.16	.50	40⅝-11¼	34	1.4
MACY (R. H.) & CO. W.C. (mil.) '59–$67.5; '60–$74.8	396.1[3]	405.3[3]	1.9	1.9	3.74[3]	3.60[3]	3.76[4]	4.07[4]	6.87[4]	2.00	65⅝-37¾	65	3.0
MARSHALL FIELD & CO. W.C. (mil.) '59–$62.9; '60–$66.5	98.4	99.5	2.0	2.1	.48	.52	2.25	2.20	3.26	1.40	43 -27⅜	41	3.4
MAY DEP'T. STORES W.C. (mil.) '59–$218.0; '60–$171.1	298.0	308.1	1.6	1.4	.61	.55	3.28	3.11	4.72	2.20	58⅝-40¼	58	3.7
MERCANTILE STORES W.C. (mil.) '59–$32.8; '60–$34.5	71.9	73.0	1.4	1.3	.70	.68	3.38	3.16	4.89	1.65	44½-30⅜	44	3.7
MONTGOMERY WARD & CO. W.C. (mil.) '59–$541.0; '60–$490.1	567.3	593.6	.8	.6	.34	.26	2.28	1.07	1.82	1.00	53⅜-25½	31	3.2
PENNEY (J. C.) CO. W.C. (mil.) '59–$541.0; '60–$490.1	609.3	634.1	2.7	2.8	.67	.73	2.09	1.82	2.33	1.50	49¾-37⅛	47	3.1
SEARS, ROEBUCK & CO. W.C. (mil.) '59–$1,200.0; '60–$1,262.7	1,904.1	1,929.8	3.7	3.9	.97	1.00	2.64	2.55	3.01	1.40	72⅝-44½	72	1.9

*—Based on latest dividend rate.
W.C.—Working capital.
d—Deficit.

1—Plus stock.
2—Includes quarterly optional payment in cash or stock.
3—39 weeks ending April 30.
4—Year ended July 31.

Allied Stores: Company is having some success in improving its unprofitable main stores. Entering discount business. **B2**

Associated Dry Goods: Earnings are growing by successful branching out from prime-rated stores. **A1**

Best & Co.: Acquisition of Grand Apparel Stores will increase sales to about $50 million from $42.8 million in 1960, and will help earnings. **B1**

City Stores: Entering discount business; increasing self-service. Greenfield interest over 73% of stock. **C3**

Federated Dept. Stores: Continues growth trend with successful expansion. Opening profitable "twig" stores—branching from main stores. **A1**

Gimbel Bros.: Benefiting from large branches recently opened; more planned. **A1**

Interstate Dept. Stores: Remarkable growth in two years resulting from entry into discount business. Considering merger with Montgomery Ward. **B1**

R. H. Macy & Co.: Introduction of credit important. Several large branch stores to open soon. More planned. **A1**

Marshall Field: Seattle store and new branches showing better volume and profit margins; prospects good for active Christmas sa'es. **A1**

May Dept. Stores: One of the larger department store organizations. Company is benefiting from new economies as well as large branches opened late in 1960. **A2**

Mercantile Stores: Modernization of old stores and new units should enable earnings to recover from last year's modest setback. **B1**

Montgomery Ward: Initial costs of new stores continue to be burdensome. Earnings outlook remains cloudy. **B2**

J. C. Penney: Upgrading merchandise lines and expanding credit to more stores should help 1961 results. **A1**

Sears, Roebuck: Aggressive expansions continue as new ventures feature its 75th year. **A1**

RATINGS: A—Best grade. B—Good grade. C—Speculative. D—Unattractive. 1—Improved earnings trend. 2—Sustained earnings trend. 3—Earnings up from the lows. 4—Lower earnings trend.

be developed.

Discounting now covers virtually every type of merchandise. Ready-to-wear is becoming increasingly important. **Spartans Industries,** for years a manufacturer of inexpensive clothing for women and children, has 25 discount stores under construction for opening in time for this year's Christmas season. Next year a minimum of 30 more are planned. These will not be small stores; they are supposed to do an annual volume of $4.0 million each. This is real integration—from piece goods cutting to the "plain pipe rack." There are some ruffled feelings: the faithful department store—once a customer now a competitor, the wholesaler who is now out of the picture; but discounting has had to revolutionize old relationships.

Department Stores Take Action

Theodore Schlesinger, president of **Allied Stores,** once said wishfully that the fad of discounting would probably wear off gradually and that some loss in volume is all that is needed to make the profits of the low-margin discount operation vanish. This possibility is a genuine risk for the discounter, but department store executives are still hopefully waiting for it to happen.

Meanwhile, Allied is not going to just stand by to see if this theory proves correct. Recently it set up the Almart Stores Division to develop discount units. Peck's in Kansas City, a third rate department store in its community and on the downgrade, was converted to a discount house as a beginning move. Other department store operators who set up discount type operations staunchly deny they are discount houses. "This is different," says one. "We have an upstairs store atmosphere. It's an improved bargain basement, not a discount house."

Other stores are meeting the challenge of discount houses by attempting to increase the traffic in their main store, adding groceries, drugs, and other frequently purchased items, often by leased outlets.

One of these, **Vanderbilt Tire and Rubber**, has had remarkable success in the last year. This company, which operates leased tire and auto accessory sections in department stores, increased the number of such concessions to 40 from 24 a year ago. Leasing out departments to obtain the unusual has also increased department store traffic. **Chicago Bird & Cage**, for example, has more requests to open up pet departments in department stores than it can handle; only two years ago few of them would buy the idea. This may seem to be an odd way to combat the discount house, but anything that adds traffic to the department store is now apt to find a hearing.

Allied Stores has taken another measure. In the New York area it has hired the White Shield organization to set up door-to-door selling. Thus, the battle for sales is being carried right to the consumer's front door, where the salesmen will try to sell by catalog. The difficult here is that door-to-door selling requires a high commission for the salesmen, and there may be no slack in the department store mark-up for this. The merchandise certainly cannot be priced very much higher than the list prices in the stores. Other department store executives have, in fact, predicted failure for this experimental move. Allied feels it is at least worth a try. Certainly **Avon Products** has been highly successful in selling cosmetics door to door.

Are "Twigs" an Effective Counterattack?

Department stores have also evolved a new type of outlet known as the "twig." It is much smaller than the average branch store and specializes in limited lines such as appliances, shoes, or furniture. Few clerks are needed in the low-overhead operation and self-service or check-out systems are often applicable. Twigs are, in effect, limited-line discount houses that have the advantage of trading on the big department store's name. Sometimes the credit or charge system of the main store is used with little extra operating cost, and this gives them another advantage over the cash-and-carry discount house. (However a number of "old" discount houses are now offering credit.) The capital needed to start a twig is considerably less than for a branch store carrying a full line, yet the appeal of the discount house is very closely duplicated.

Federated Department Store's twig store in Milwaukee has apparently met with success as far as profits so, and the company plans to start another twig in Dayton, Ohio. **May Dept. Stores** has two twigs in the Baltimore area specializing in furniture and another in Youngstown, Ohio, specializing in teen-age goods. **City Stores** has two twigs in the Philadelphia area that concentrate on tires and auto accessories and another to open soon, specializing in shoes.

Twigs may prove to be part of the answer to the discounter. In any event they are helpful in enabling a department store to reach a small town or suburb where a full-blown branch is not justified.

Retail Sales Look Better

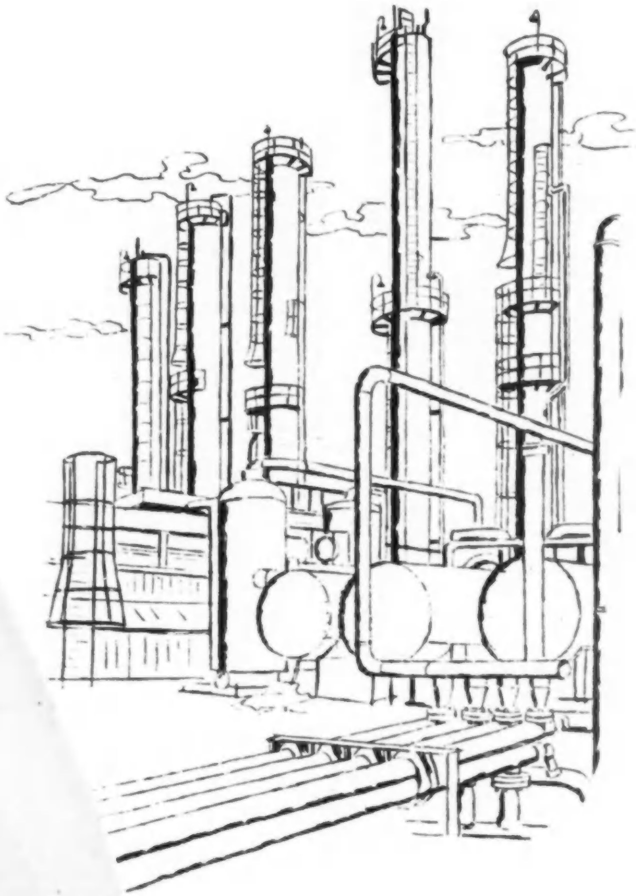
Despite the recession, department store sales in 1960 were actually ahead of 1959 by the small margin of 0.8%, according to the National Retail Merchants Association. Earnings were generally lower, however, because of frequent markdowns and poor weather during the crucial Easter and Christmas selling seasons. It is difficult to predict final results for the current year, since so much depends upon performance in the fourth quarter. Many department stores make as much as one-half of their earnings during the weeks prior to Christmas. It is encouraging, however, that through the end of September, department store sales were running 1% ahead of the same period a year ago. The Boston area reports one of the better gains, 5% ahead of last year; Kansas City, where Macy's has a big store, is 4% ahead. With fewer mark-downs, the better stores are showing improved profit margins over a year ago.

A Glance at the Individual Stores

Allied Stores (60). The problem of improving the profitability of eight or ten key downtown stores continues to be management's principal task. Many of them do not have the leading trade position in the community. Peck's in Kansas City was one such store which, with profit margins in a seemingly hopeless slide, was turned into a discount house. The Almart Division may be expected to set up more discount stores, and acquisition of a discount operation would not seem to be out of the question. The stock is reasonably priced, providing a 5% yield from the $3.00 dividend that has been maintained at this level for eleven years.

Associated Dry Goods (92). This company derives its strength from large, long-established stores that have a fine trade reputation, such as New York's Lord & Taylor. Its well conceived branches are sizable full-line stores in suburban areas. Having the advantage of trading upon the parent store's name and reputation, all have been profitable within a year after opening. Acquisition in April, 1961, of H & S Pogue, the long-established Cincinnati store, adds another strong retail position from which branching can begin. So far this retailer of quality and fashion merchandise is little concerned about competition from discount houses that emphasize cheaper lines. Thus, sustained growth has marked the company's record since 1951, and continuation of the trend seems a reasonable hope. From a 1950-52 average of $2.71 per share earnings, have climbed almost without interruption to a 1958-60 average of $4.60, with $5.00 thought to be a reasonable expectation for this year. Like many growth stocks it is not cheap relative to other retail situations; the stock currently yields 2.7% on the dividend of $2.50 and is selling at 18.5 times earnings.

Federated Department Stores (51). In its various acquisitions Federated has always insisted upon getting the leading store in each community. Chairman Fred Lazarus is a *(Please turn to page 159)*



THE FORTUNES OF THE NATURAL GAS INDUSTRY

By JOHN PINTARD

—Industry will need adequate reserves and rate of return to assure sound expansion—problems of pricing and competitive fuels—regulatory outlook under new FPC appointees—companies in best position.

THE natural gas industry has, in recent months, come under the purview of almost an entirely new group of regulators. For the investor who has impatiently awaited solution of the many problems that have faced the industry in recent years, it may indicate a period of rapid clarification. It must be recognized, however, that the Commissioners recently appointed by the Kennedy Administration have backgrounds which suggest that rulings will lean more toward providing a service to the consumer at the lowest possible price rather than balancing the interests of the purchaser, seller and investor. Despite this probable predilection, early rulings on a number of the long contested issues could restore

Statistical Summary of Natural Gas Companies

	Earnings Per Share Yearly 1959	Earnings Per Share Yearly 1960	Earnings Per Share 1st Quarter 1960	Earnings Per Share 1st Quarter 1961	Dividend Per Share 1960	Dividend Per Share Indicated 1961*	Price a Year Ago	Recent Price	Div. Yield	Price Earnings Ratio†	Price Range 1960-1961
PIPE LINES (Some Production)											
El Paso Natural Gas	$1.33	$1.92	$1.08	$ .75	$1.10	$1.30	32	25	5.1%	13.0	30⅝-21¾
Mississipi River Fuel	2.44	2.30	1.22	1.12	1.60	1.60	33	38	4.2	16.5	42⅞-30
Northern Natural Gas	1.92	2.20	1.38	1.39	1.40	1.40	30	36	3.8	16.3	43 -26¾
Panhandle Eastern Pipe Line	3.49	3.05	1.59	1.89	1.80	1.80	44	43	4.1	14.1	56⅜-39⅝
Southern Natural Gas	1.85	2.20	1.11	1.38	2.00	2.00	38	41	4.8	18.6	47⅞-33⅜
Tennessee Gas Transmission	1.29	1.35	1.25[1]	1.40[1]	1.02	1.12	21	22	5.0	16.2	25⅛-20¼
Texas Eastern Transmission	.74	1.04	.92[2]	1.03[2]	.70	.80	15	17	4.5	16.3	20⅛-13⅛
Texas Gas Transmission	2.33	2.59	2.50[2]	2.45[2]	1.42	1.50	29	34	4.4	13.1	38⅝-29⅜
Transcontinental Gas P. L.	1.23	1.18	1.10[2]	1.24[2]	1.00[3]	1.00	20	22	4.5	18.6	24⅝-19¾
INTEGRATED COMPANIES											
American Natural Gas	1.82	1.97	1.91[2]	2.17[2]	1.04	1.20	34	47	2.5	23.8	49 -22⅛
Arkansas-Louisiana Gas	1.72	1.61	1.07	1.07	1.00	1.00	32	40	2.5	24.8	44⅞-29¼
Colorado Interstate Gas	1.71	1.96	1.17	1.19	1.25[3]	1.25	36	44	2.8	22.6	48 -31⅝
Columbia Gas System	1.35	1.51	1.00	1.12	1.02	1.10	20	29	3.7	19.2	29½-18¾
Consolidated Natural Gas	3.36	3.19	3.58	3.21	2.20	2.30	47	64	3.5	20.0	64½-42¼
Lone Star Gas	1.20	1.28	1.09	.98	.90	1.00	20	26	3.8	20.3	29 -17⅞
National Fuel Gas	1.74	1.86	1.22	1.20	1.20	1.20	22	29	4.1	16.1	30⅛-21⅝
Oklahoma Natural Gas	1.92	2.16	2.17[1]	1.99[1]	1.28	1.40	29	34	4.1	15.7	36⅞-24⅞
Peoples Gas Lt. & Coke	3.98	4.28	4.28[1]	4.47[1]	2.37	3.00	60	94	3.1	21.9	97½-54¾
United Gas Corp.	2.27	2.26	1.26	1.31	1.50	1.50	31	35	4.2	15.4	39 -27⅝
RETAIL DISTRIBUTORS											
Alabama Gas Corp.	1.85	2.45	2.79[2]	2.28[2]	1.60	1.60	30	34	4.7	13.8	35⅜-27⅛
Brooklyn Union Gas	1.67	1.75	1.08	1.10	1.20	1.20	28	41	2.9	23.3	44⅞-25
Laclede Gas Co.	1.10	1.55	3.66[2]	3.80[2]	.97	1.05	23	32	3.2	20.6	34 -18¼
Northern Illinois Gas	1.80	2.04	2.13[1]	2.21[1]	1.15	1.40	109	60	2.3	29.4	61 -28⅝
Pacific Lighting	2.64	3.43	3.10[2]	3.16[2]	2.40	2.40	50	60	4.0	17.4	61 -46⅝
Washington Gas Light	3.50	3.79	4.18[2]	4.25[2]	2.32	2.40	50	74	3.2	19.5	77½-45½

†—Based on 1960 earnings per share.
*—Based on latest dividend rates.

1—12 months ended July 31.
2—12 months ended June 30.
3—Plus stock.

PIPELINES

El Paso Natural Gas continues to be faced with extensive regulatory and legal problems as well as prospective competition from new pipelines. A proposed connection with **Colorado Interstate** will add to sales over the coming several years.

Mississippi River Fuel has increased the supply to its major market through a new pipeline owned by a subsidiary. In addition to extensive oil interests the company owns almost 30% of Missouri Pacific Railroad Class A stock.

Northern Natural Gas is diversifying into the propane and butane market on both the wholesale and retail level. Company also authorized to build a helium extraction plant. Reserves have been strengthened by recent purchases and acquisition of 16% ownership in Transwestern Pipeline.

Panhandle Eastern and its subsidiary **Trunkline** have recently proposed a major expansion program to serve the industrial Midwest, a portion of which has been approved. An adverse rate order issued last month denies the company fair field price for its owned reserves for past periods.

Southern Natural Gas has benefitted from rate increases but is meeting increasing competition from other fuels for industrial uses. The offshore operations are contributing to earnings.

Tennessee Gas Transmission and its non-regulated subsidiary Tenneco comprise a rapidly growing oil and gas complex as well as petrochemical facilities, and insurance company and real estate operations. An unsatisfactory rate order has caused the company to postpone all regulated construction.

Texas Eastern proposes to build a long distance coal pipeline as well as operating its oil and gas transmission facilities. The oil pipeline is expected to provide a solid contribution to future earnings.

Texas Gas Transmission has no rate problems and is continuing to expand slowly. Construction of underground storage fields by customer companies is aiding in overcoming a former load factor.

Transcontinental Pipeline continues to be the major supplier for the eastern seaboard states as well as the New York. New Jersey industrial areas. A proposed liquids pipeline serving the southeast is still be constructed but on a smaller scale than anticipated.

INTEGRATED COMPANIES

American Natural Gas has obtained important new reserves which lessen the importance of the supply formerly received from Panhandle. The longstanding dispute between the two companies is approaching an end. Growth is good, considering a number of mature economic areas are served.

Arkansas Louisiana derives almost 40% of its net income from the manufacture of air conditioners, heating equipment and related items, and a cement plant. A rate increase in Arkansas and a program of acquisitions are providing a base for future earnings growth.

Colorado Interstate Gas has agreed to increase its supply to Denver and proposes to construct a major extension to connect with El Paso Natural Gas. In view of Commission order in Panhandle case the likelihood of obtaining value for owned reserves is slim.

Columbia Gas System corporate reorganization is proceeding and will ultimately reduce problems of regulatory lag. In the interim, earnings growth will continue to be modest.

Consolidated Natural Gas is applying for a major increase in its Ohio operating area. In addition it is actively seeking new uses in industrial processing which dominates the territory served. A small exploration program has been successful.

Lone Star Gas obtained important rate relief last year which will contribute to 1961 results. Extremely active in promoting gas appliances, especially air conditioners, the system should benefit over the next several years.

National Fuel Gas is becoming a more aggressively managed company but still serves a rather static residential area in western New York and adjoining areas of Pennsylvania and Ohio. Earnings growth is likely to be modest.

Oklahoma Natural Gas has a record of good customer growth and since undertaking a program of acquisitions has further enhanced its prospects. Alert to the promotion of gas appliances and having excellent control of its gas supplies, the company operates at a high load factor.

Peoples Gas Light has increased its earnings sharply since obtaining a larger supply from its own and a competing pipeline. A recent split and dividend increase have driven the market to an historically high level.

United Gas Corporation is still awaiting rulings in rate cases dating from 1954. A decision several months ago by the City of San Antonio to accept service from a competing distributor is being challenged in the courts. While broadly diversified, material earnings growth is unlikely until regulatory problems are clarified.

RETAIL DISTRIBUTORS

Alabama Gas provides a relatively high yield on a well covered dividend. Reductions in industrial sales and adverse weather have held earnings stable in the current year.

Brooklyn Union is continuing to make steady inroads in the heating market and expects major benefits from the development of Staten Island. Rate reductions in the past several years have enabled the company to acquire many new customers and thus benefit earnings.

Laclede Gas expects to benefit from the extensive urban redevelopment of downtown St. Louis. A new supply recently obtained should eliminate the residential backlog. The Missouri Commission has been quick to offset higher gas costs.

Northern Illinois Gas serves a diversified and rapidly growing service area. An aggressive and inventive management has enhanced the company's position.

Pacific Lighting serves the growing southern California market but is threatened by a competing pipeline proposed by Tennessee Gas to serve an important industrial customer. Rising gas costs have limited earnings growth in recent years.

Washington Gas Light has experienced rising population growth in recent years as District of Columbia suburbs extend into southern Maryland. Efforts to obtain storage rights continue to be thwarted by the legislature. A recent stock split reflects the long term rise in earnings.

stability and aid the investor in evaluating the market potential for natural gas securities.

A dispassionate view of the market performance of the industry at this time is indeed a sobering experience. In the past year it has become increasingly enmeshed in some of the most complicated regulatory and legal disputes ever to entangle a single industry. In the face of such misfortune, it is not surprising that the securities have done quite poorly. **Just as an example, in the past year a representative index of gas transmission companies has risen in price a mere 9% over a year ago and now yields 4.5%. In the same period, gas distribution companies advanced an average of 36% and yield 3.1%, while electric utilities are up about 25% to yield 3%. Also, in the same period, the Dow Jones industrials rose 24% and now yield 3%. Apparently this divergence is not merely a short-term trend but rather has become more or less permanent, as the transmission companies have lost favor in the market.**

Hostile Regulatory Treatment of Gas Transmission Companies

A comparison between electric utility stocks and the natural gas transmission companies naturally arises in attempting to determine relative investment merit. The transmission companies, under present Federal Power Commission and court rulings, are utilities for investment purposes, just like the electric companies. But it is somewhat disturbing to recognize that the FPC is continuing to adhere to a concept of rate of return which will allow a transmission company only approximately 10% to 10½% on its equity investment, while the average electric company is earning in excess of 11%, and in some cases (even where consumer rates are not high) as much as 12% to 13%. Last June, in these pages, it was noted that this pattern of regulation would more and more classify the natural gas transmission companies as income vehicles rather than as growth stocks, their former status. There seems little in current developments to cause a modification of this position.

Background of Federal Power Commissioners

Before reviewing some of the more recent developments and evaluating the prospects of individual companies, a few comments on the backgrounds of the Federal Power commissioners seem appropriate.

Chairman Joseph C. Swidler was formerly the General Counsel for the Tennessee Valley Authority and was associated with that organization for a number of years prior to entering his own law practice, in which he represented municipally-owned power organizations. In public statements since his appointment he has given many indications that he will be a forceful administrator and that he understands that his appointment carries with it the burden of clarifying the regulatory situation as rapidly as possible.

Howard Morgan, another recent appointment, was the state utility commissioner in Oregon from 1957 to 1959 and prior to that a member of the Oregon Legislature and Democratic state party chairman. During his tenure as utility commissioner he gained a reputation as a strict regulator and one who appeared to think only of the interests of the consumer. Nonetheless, his rulings were logical and not readily subject to court review.

Lawrence J. O'Connor also has been appointed in the last few months and gained a certain amount of notoriety when a minor filibuster was staged against his appointment. The objection was based on the fact that O'Connor had at one time worked for an oil company, and despite an excellent reputation gained from running the Interior Department's oil import department, was regarded as an "Industry Man". While he has made no public statements since his appointment, there is reason to believe that his views on important regulatory issues are balanced.

Charles Ross, formerly the chairman of the Vermont State Commission, was appointed in the closing days of the last Congressional session. He has no background in the natural gas industry. In the regulatory picture, Vermont is considered to be a strict jurisdiction, and rate orders issued by its Commission have not been considered generous.

Jerome K. Kuykendall, the hold-over Commissioner, for the moment provides the sole continuity with past regulation. His term expires in June, 1962, but it is generally expected he will leave the Commission before that time, permitting the Administration to make a complete change.

Under an Administration that has as its policy expansion of public power, as many appointments in the Interior Department appear to indicate, the FPC attitude toward this matter will also be important. A statement made in September by Chairman Swidler contained the comment, "My background in the electric utility field, where integrated operations are the rule, makes me wonder how a system that has no unified responsibility could operate efficiently." At the time he was addressing representatives of the natural gas industry. Subsequent questioning did not elicit more definite clues as to his meaning of "unified responsibility." In view of the heavy demands now being made on Federal funds for more important political needs it does not seem likely, however, that any sizable amount will be allocated by Congress for the extension of government control over either the electric industry or the natural gas industry in the near future.

Swidler Recognizes Need for Higher Rewards for Exploration

Chairman Swidler has reiterated several times his determination to settle the producer price problem as quickly as possible. Toward this end he recently stated that area rate proceedings started last year probably will prove to be the most important single tool for developing a sound framework for producer regulation. He added that the Commission did not expect the producer to continue to risk his money exploring for gas at a pace which the national interest requires without hope of some return on the money expended higher than that associated with largely risk-free investments in conventional utility enterprises. Producers generally have received his statements with optimism.

Support for Area Pricing

Industry representatives, while still cautious, have welcomed the Commissioner's desires to accelerate rate procedures, to extend area pricing and to emphasize the need for increased supplies of gas. The industry is also support- *(Please turn to page 161)*

FOR PROFIT AND INCOME

Another Look At MGM

Metro-Goldwyn-Mayer was recommended here at a low level some time ago. Following a sharp rise, profit taking was advised at $68\frac{1}{2}$ in the issue of last May 2. The stock is currently down to 48, should begin to meet support and is believed to have merit for speculative buying. Profit for the fiscal year ended August 30 probably was in the vicinity of $5.00 a share, up from the prior year's $3.83, and a good further current-year gain is probable. The company has a hit picture in "Ben Hur" and some promising releases are scheduled, especially the "King Of Kings" and "Mutiny On The Bounty." Old films on TV, phonograph records and music publishing are sources of sizable revenue. More important, releases to TV from the large library of post-1948 pictures are just beginning. M-G-M has the biggest all-time movie gold mine in "Gone With The Wind", made in 1939, currently yielding fat profits in its fifth release, and expected to be the first movie to pass $100 million gross. The way it is going, this film may never get to television. The stock appears undervalued at less than 10 times last year's estimated earnings, possibly under 8 times current-year earnings. The $1.60 dividend could well be raised before long.

Three Speculations

The railroad industry is discussed in detail elsewhere in this issue. Suffice it to note here that the group's chart pattern appears more promising than in some time; and that, even within the range of the past two years or so, there is leeway for possible further recovery of some proportions. Top-grade, safe-dividend rails naturally promise the least in a cyclical upswing. The lowest-grade issues move widely in percentage but are too risky to interest this department. Three "in-between" choices for speculation here are Illinois Central, Rock Island and Western Maryland.

Utilities

The utility list held up well in the September market unsettle-

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Associated Dry Goods	Quar. July 29	$.48	$.33
International Harvester	Quar. July 31	1.14	.73
Caterpillar Tractor	7 mos. July 31	1.16	.90
Federated Dept. Stores	13 weeks July 29	.30	.25
Arkansas Louisiana Gas	Quar. June 30	.44	.38
Household Finance Corp.	6 mos. June 30	1.48	1.26
Curtiss-Wright Corp.	Quar. June 30	.29	.23
Columbia Gas System	12 mos. June 30	1.59	1.47
Disney (Walt) Production	9 mos. July 1	1.46	.20
Pacific Gas & Electric	12 mos. June 30	4.51	3.89

ment, as also did rails, and took little time to break out of its recent narrow range to another new postwar high. If you want growth utilities, such as Southern Company, Texas Utilities or similar issues, you have to pay a fancy premium today. Certainly on a medium-term viewpoint, we find it hard to share the present general investment enthusiasm for them. On the other hand, to get yields over 4% you have to go to the most static issues, subject to little growth of earnings, if any, and thus having a minimum basis for appreciation. Two of these are New England Electric System, currently yielding 4.4% and Public Service of New Hampshire (over the counter), yielding 4.5%. Basically, there is not a great deal more to be said for them than for buying bonds or preferred stocks. Many average-growth utilities that yielded 5% to 6% not so many years ago now yield from 3% to 3.3%. Examples are Baltimore Gas & Electric, Cleveland Electric, Consumers Power, Ohio Edison and Public Service of Indiana. Yet pressure of surplus funds seeking relatively conservative investment could take these issues and utilities generally to still higher levels, even though they would seem to be rather liberally valued already.

Industrials

At this writing the industrial average is less than 3% under its early-September peak, although the distance does not look narrow in points. Whatever the average does, the huge industrial list is and will remain a highly mixed "market of stocks." Stock groups faring better than average in recent trading up to this time include automobiles, drugs, office equipment, bank stocks, insurance, most of the retailing groups, textiles, tires and tobaccos. Groups currently lagging are principally aircraft, air lines, building materials, chemicals, farm machinery, motion pictures, oils, rail equipment and steel.

Tax Selling

Smart investors will not wait until the last few days of the year to do some selling and switching for tax-adjustment purposes. The "early birds" have already begun it and will be ready to concentrate on buying of some issues which may become over-depressed by late-1961 tax selling. If the market holds around present levels or advances, over-all tax selling will be considerably less this year than it was in late 1960, and will not of itself have any significant effect on the Dow industrial average because most of the sharply-depressed stocks are not in this average. There are scores of issues now down 25% or more from this year's highs, and many off by larger percentages from older highs. There are numerous candidates for tax selling in such groups as air lines, aluminum, electronics-television, oils, publishing, steels and vending machines. Look over your holdings soon with an eye to cutting 1961 tax liability by some judicious switching, and improving portfolio quality and potentials at the same time. Too many people sit tight on unsatisfactory and unpromising holdings.

Strong

Some industrials meeting above-average demand at this writing are Armstrong Cork, Associated Dry Goods, Brown Shoe, Cluett Peabody, Dana Corp., Federated Department Stores, Ford Motor, General Motors, Gimbel Bros., Jewel Tea, Philip Morris, Reynolds Tobacco, Sears Roebuck and Singer Mfg.

Lagging

Chart patterns of the following stocks look unpromising: Air Reduction, Allis-Chalmers, Alcoa, Case, City Products, American Cyanamid, Boeing, Fenestra, General Bronze, Kaiser Aluminum, Getty Oil, Ritter, Outboard Marine, Sunstrand, Standard Packaging, Texas Instruments, General Time, Filtrol, Twentieth Century-Fox Film and Whirlpool Corp.

Liquor

Distilling of liquor is not a growth industry. So some companies have diversified outside of this field. Their other activities are mostly small as compared with liquor, excepting in the case of National Distillers & Chemical. This company went into chemicals in a big way some time ago—but has not yet been able to get earnings up to the old peak set over 10 years ago in 1950 when liquor was the whole story and there was no "chemical" in the company name. Ironically, the two companies which stuck to liquor have fared best. They are Hiram Walker and American Distilling, The latter has much the smallest volume among the better-known distillers, but the record testifies to the exceptional ability of the management in competing with the big concerns. Indeed, here is a growth stock in liquor, of all things. Following an unimpressive older trend, earnings have risen for nine consecutive years. The gain in eight years through the September 30, 1960, fiscal year was 600% to $2.38 a share. Profit for the year recently ended is estimated in the $2.60-$2.70 range. It should be higher under better general economic conditions in the present 1961-1962 year. Dividends are at $1.00. At 47 the stock is selling around 18 times earnings. That would be high for a run-of-the-mill liquor stock, but is reasonable for any kind of growth stock.

Insurance

Stocks of underwriters of casualty insurance reacted sharply as a result of Hurricane Carla,

(Please turn to page 164)

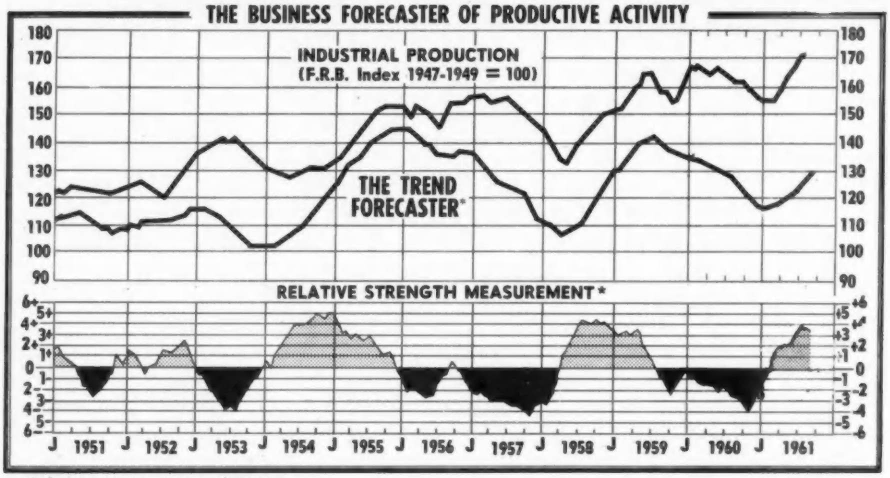
DECREASES SHOW IN RECENT EARNINGS REPORTS

		1961	1960
Hat Corp. of America	9 mos. July 31	$.13	$.55
Van Raalte Co., Inc.	6 mos. June 30	.70	.87
Mesta Machine	6 mos. June 30	1.03	1.22
Universal Match	6 mos. June 30	.43	.80
Bigelow-Sanford	6 mos. July 1	.81	.92
Pittsburgh Metallurgical	Quar. June 30	.15	.24
Canadian Pacific Rwy.	6 mos. June 30	.39	.72
Jarger Machine Co.	Year June 30	.50	1.41
Texas Instruments	Quar. June 30	.65	1.01
Pet Milk Co.	Quar. June 30	.48	.69

the Business

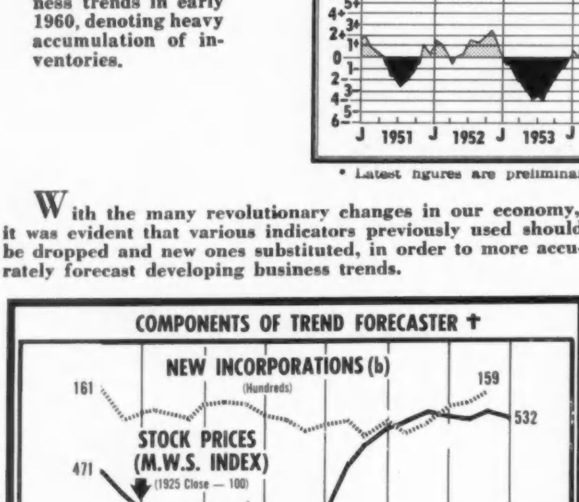
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a sustained advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually indicates that an important contraction is in the making.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

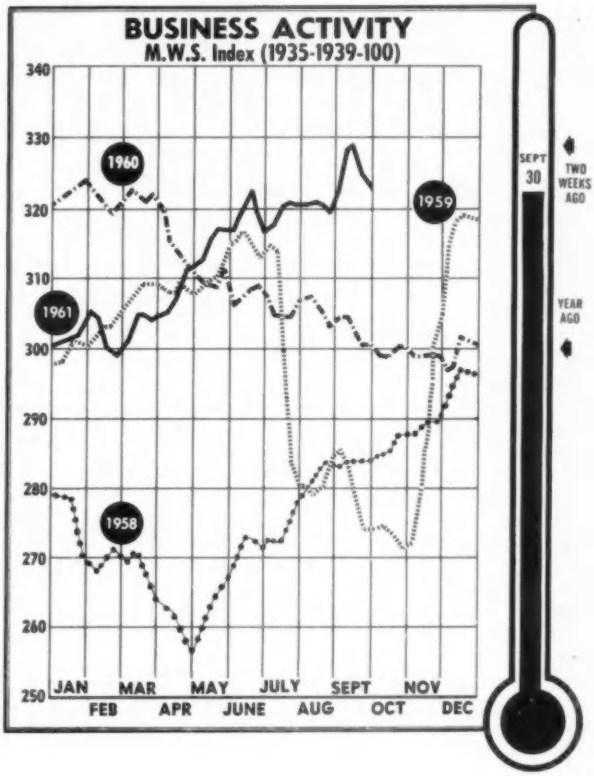
Current Indications of the Forecaster

There has not been much change in the components of the Trend Forecaster in recent weeks. The only new figure has been for hours worked, with the Labor Department reporting a sharp drop because of such extraneous developments as hurricane Carla, the General Motors strike and religious holidays. Without these factors, we estimate that hours worked in September would have been about the same as in August and we are therefore keeping the figure unchanged.

On the basis of the latest month-to-month readings, three of the indicators were advancing, three declining and two held unchanged. However, the declines were relatively minor in most cases and did not affect the intermediate upward trend to any extent. On this long term basis, six of the indicators are still moving up.

The Relative Strength Measure in September stood at plus 3.4, according to our estimates. Although off a bit since July, it is still above the plus 3 level and points to a continuation of the upward trend in business activity.

Analyst



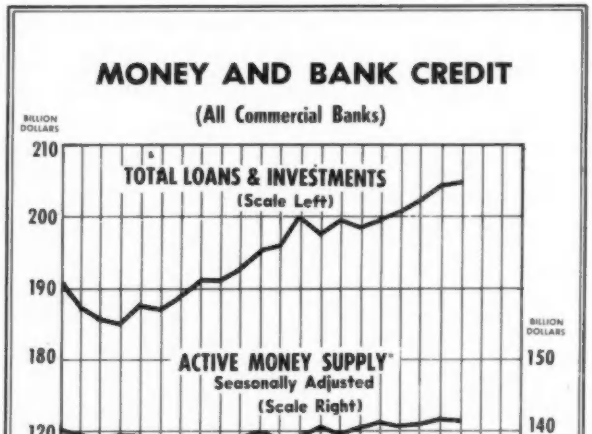
CONCLUSIONS IN BRIEF

PRODUCTION — Output inching upward despite new strike in auto industry, with activity in steel, electric power and coal all moving higher. Settlement of Ford strike will bring sharp gain in auto production but no big near-term gains are expected for industry in general.

TRADE — Consumers still marking time in September. Introduction of new auto models brought sharp gains in auto sales late in the month, but this was in line with seasonal expectations. Watch trend of retail sales in the immediate weeks ahead for signs that the public is finally beginning to loosen its purse strings.

MONEY & CREDIT — Federal Reserve still following easy-money policy, which may be maintained as long as commodity prices remain stable. Gold movements should be watched, however, as renewed outflow could force Fed to tighten credit, raise interest rates.

COMMODITIES — Prices still easy in most areas. Sensitive commodities slightly lower while raw materials and semi-finished goods also give ground. Irregular trend may continue for some time unless there is a marked increase in buying for inventory and in consumer demand.



WHAT the consumer spends in the months ahead will probably be one of the main determinants of the vigor and duration of the current recovery. Up to now, business activity has forged ahead without much assistance from this sector of the economy, but a vigorous upturn can hardly continue for long without convincing signs that the consumer is ready to purchase his share of increasing output.

Thus far, consumer spending has remained in a rut and is still near the lows of the recent recession. If this reluctance to buy continues much longer, it will also begin to affect other areas of the economy adversely. The consumer's purchasing proclivities at this juncture are examined thoroughly in this issue in the article, "The American Consumer — Heel or Hero," which will give the reader a comprehensive understanding of the complex forces that must be taken into account in assessing the outlook for consumer spending. Suffice it to say here that, although some signs of a possible awakening of consumer demand are beginning to appear, no clear-cut indication of the contribution to be expected from this area of the economy will be available until later this year.

On the other major economic fronts, further gains have been made in recent weeks, although the rate of advance has been far from uniform. Perhaps the best showing has been racked up by new orders, where revised figures indicate that an advance of $900 million took place in August, pushing the total to a new high of $32.1 billion. September may show

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Aug.	171	170	165
Durable Goods Mfr.	1947-'9-100	Aug.	176	174	169
Nondurable Goods Mfr.	1947-'9-100	Aug.	168	167	162
Mining	1947-'9-100	Aug.	130	129	129
RETAIL SALES*	$ Billions	Sept.	18.2	18.2	18.1
Durable Goods	$ Billions	Sept.	5.5	5.5	5.8
Nondurable Goods	$ Billions	Sept.	12.6	12.7	12.3
Dep't Store Sales	1947-'9-100	Aug.	150	151	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	Aug.	32.1	31.3	30.0
Durable Goods	$ Billions	Aug.	15.6	15.0	14.4
Nondurable Goods	$ Billions	Aug.	16.6	16.3	15.6
Shipments*	$ Billions	Aug.	31.6	31.2	30.1
Durable Goods	$ Billions	Aug.	15.2	14.8	14.4
Nondurable Goods	$ Billions	Aug.	16.4	16.4	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Aug.	92.1	91.8	93.3
Manufacturers'	$ Billions	Aug.	54.0	53.5	55.0
Wholesalers'	$ Billions	Aug.	13.6	13.6	13.1
Retailers'	$ Billions	Aug.	24.5	24.7	25.2
Dept. Store Stocks	1947-'9-100	July	166	164	167
CONSTRUCTION TOTAL—†	$ Billions	Sept.	58.4	57.8	55.6
Private	$ Billions	Sept.	41.4	41.2	39.3
Residential	$ Billions	Sept.	23.4	23.3	22.1
All Other	$ Billions	Sept.	18.0	17.9	17.2
Housing Starts*—a	Thousands	Aug.	1317	1338	1355
Contract Awards, Residential—b	$ Millions	Aug.	1589	1502	1433
All Other—b	$ Millions	Aug.	1954	2027	1862
EMPLOYMENT					
Total Civilian	Millions	Sept.	67.0	68.5	67.8
Non-farm*	Millions	Sept.	53.4	53.4	53.0
Government*	Millions	Sept.	8.9	8.8	8.5
Trade*	Millions	Sept.	11.6	11.7	11.7
Factory*	Millions	Sept.	12.0	11.9	12.2
Hours Worked*	Hours	Sept.	39.3	40.0	39.1
Hourly Earnings	Dollars	Sept.	2.34	2.34	2.30
Weekly Earnings	Dollars	Sept.	92.66	93.83	91.08
PERSONAL INCOME*	$ Billions	Aug.	419	421	405
Wages & Salaries	$ Billions	Aug.	283	282	273
Proprietors' Incomes	$ Billions	Aug.	61	61	60
Interest & Dividends	$ Billions	Aug.	42	42	41
Transfer Payments	$ Billions	Aug.	32	35	29
Farm Income	$ Billions	Aug.	17	17	17
CONSUMER PRICES	1947-'9-100	Aug.	128.0	128.1	126.6
Food	1947-'9-100	Aug.	121.2	122.0	120.1
Clothing	1947-'9-100	Aug.	109.9	109.9	109.3
Housing	1947-'9-100	Aug.	132.3	132.4	131.5
MONEY & CREDIT					
Active Money Supply*—u	$ Billions	Aug.	141.4	141.6	138.6
Bank Debits*—g	$ Billions	Aug.	102.4	100.7	99.0
Business Loans Outstanding—c, u	$ Billions	Aug.	31.5	31.3	30.9
Instalment Credit Extended*—u	$ Billions	Aug.	4.1	4.0	4.1
Instalment Credit Repaid*—u	$ Billions	Aug.	4.1	4.0	3.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	6.4	3.0	6.5
Budget Expenditures	$ Billions	Aug.	7.6	6:3	6.8
Defense Expenditures	$ Billions	Aug.	4.1	3.4	4.1
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.6)	(3.3)	(3.4)

PRESENT POSITION AND OUTLOOK

a further gain, judging by the National Association of Purchasing Agents' report that there was a substantial increase in the number of firms reporting higher new orders last month. Equally important is the fact that new orders are now running well above shipments, pushing up backlogs which are a prime element of support for business activity. The recent strength in new orders is a good indication that further advances in output, at least for the near-term, are probable.

General construction has also continued to increase, reaching a new high in September. At the same time, contract awards have shown significant improvement, and this should lead to a gain in building activity for some months to come. In the normally volatile field of capital spending, there appears to be no reason for changing our expectations of a moderate increase in the remaining months of this year.

While inventories may also move higher, the outlook here is not as promising as in some other sectors. The business recovery, in its early months, received a good deal of impetus from the swing to inventory accumulation which occurred at that time. Although further gains in inventories have taken place in the third quarter, the pace of advance has slowed. In determining the prospects for additional inventory increases, one must take account of the trend of business sales, new orders and backlogs. Based on these determining factors, inventories in the fourth quarter should rise at about the same rate as in the last three months. This would mean that inventory investment was not providing any special boost to the economy in the fourth quarter. Government spending, on the other hand, will continue to rise briskly and the increase is already being reflected to some extent in the new order figures.

Summing up this analysis, it appears that most of the major economic sectors are heading for further gains over the near-term, while no areas of actual weakness have developed as yet. All of which brings us back to the consumer,

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter II	1961 Quarter I	1960 Quarter IV	1960 Quarter II
GROSS NATIONAL PRODUCT	516.1	500.8	504.5	506.4
Personal Consumption	336.1	320.7	332.3	329.9
Private Domestic Invest.	68.8	59.8	65.6	74.6
Net Exports	3.9	5.3	5.1	2.3
Government Purchases	107.3	105.0	101.6	99.6
Federal	56.6	54.7	53.0	52.9
State & Local	50.6	50.3	48.6	46.8
PERSONAL INCOME	413.2	404.7	405.5	403.0
Tax & Nontax Payments	51.5	50.4	50.6	50.3
Disposable Income	361.8	354.3	354.9	352.7
Consumption Expenditures	336.1	330.7	332.3	329.9
Personal Saving—d	25.7	23.7	22.7	22.8
CORPORATE PRE-TAX PROFITS	45.2	39.6	42.6	46.3
Corporate Taxes	22.4	19.6	21.1	23.0
Corporate Net Profit	22.8	20.0	21.4	23.3
Dividend Payments	14.0	14.2	14.3	14.0
Retained Earnings	8.6	5.8	7.2	9.3
PLANT & EQUIPMENT OUTLAYS	34.4	33.9	35.5	36.3

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Sept. 30	322.6	325.3	300.2
MWS Index—Per capita*	1935-'9-100	Sept. 30	229.0	230.9	216.1
Steel Production Index*	1957-'9-100	Sept. 30	114.4	113.5	83.6
Auto and Truck Production	Thousands	Oct. 7	129	143	165
Paperboard Production	Thousand Tons	Sept. 30	350	351	325
Paperboard New Orders	Thousand Tons	Sept. 30	366	344	335
Electric Power Output*	1947-'49-100	Sept. 30	298	290	275
Freight Carloadings	Thousand Cars	Sept. 30	638	605	632
Engineerings Constr. Awards	$ Millions	Oct. 5	451	465	603
Department Store Sales	1947-'9-100	Sept. 30	156	154	149
Demand Deposits—c	$ Billions	Sept. 27	62.1	62.7	61.3
Business Failures—s	Number	Sept. 28	286	337	304

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

PRESENT POSITION AND OUTLOOK

whose participation in the upturn is urgently needed, if we are to have a broad and healthy advance.

Another significant element in the business picture that requires consideration is the role of credit and finance in the months ahead. The Federal Reserve has thus far been able to maintain an easy-money policy in the face of rising business activity, thus giving the economy the benefit of relatively low interest rates in financing the expansion. From the domestic point of view, such a policy can probably be maintained as long as unemployment remains high and commodity prices are stable. Our financial position vis-a-vis foreign countries, however, may force a change in the policy of easy money. Our balance of payments again appears to be deteriorating and gold has been leaving our shores. If this trend continues, the monetary authorities may have to move in the direction of higher interest rates, with the aim of making short-term investment here more attractive. If higher rates do become necessary, in time they might be helpful in curbing a continued outflow of funds, but, over the longer term, they could also prove to be an unwelcome drag on business recovery.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Sept. 29	1961 Oct. 6
Composite Average	550.0	410.9	524.1	532.1
4 Agricultural Implements	497.2	346.4	404.7	397.0
3 Air Cond. ('53 Cl.—100)	176.9	105.8	150.9	153.4
10 Aircraft & Missiles	1393.5	861.9	1232.7	1232.7
7 Airlines ('27 Cl.—100)	1163.6	736.7	935.8	952.0
4 Aluminum ('53 Cl.—100)	521.3	337.2	349.2	337.2L
5 Amusements	427.0	209.3	346.5	343.4
5 Automobile Accessories	531.1	401.0	475.0	479.6
5 Automobiles	157.0	90.8	128.0	128.9
3 Baking ('26 Cl.—100)	44.6	34.9	39.0	38.6
4 Business Machines	2008.2	1159.1	1812.6	1903.8
6 Chemicals	887.1	657.3	842.4	864.8
3 Coal Mining	39.3	27.2	37.9	37.9
4 Communications	257.6	199.9	240.1	240.1
9 Construction	235.2	143.3	228.4	230.1
5 Container	1117.7	824.6	1091.7	1109.0
5 Copper Mining	399.3	275.4	341.5	338.7
2 Dairy Products	240.6	146.8	236.5	240.6H
5 Department Stores	212.9	135.2	212.9	212.9
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	426.4	438.1
5 Elect. Eqp. ('53 Cl.—100)	409.4	310.7	388.7	405.9
3 Finance Companies	1147.9	648.8	1091.7	1147.9H
5 Food Brands	853.1	419.3	808.5	802.9
3 Food Stores	331.0	232.1	326.0	323.5

(Nov. 14, 1936 Cl.—100)	High	Low	Sept. 29	Oct. 6
High Priced Stocks	342.8	262.7	332.1	338.4
Low Priced Stocks	729.8	527.6	673.8	683.0
5 Gold Mining	1226.0	810.8	1061.8	1039.9
4 Investment Trusts	173.5	136.5	160.9	166.5
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1396.3	1431.5
7 Machinery	647.3	402.9	554.8	559.7
3 Mail Order	494.2	364.2	429.4	457.8
4 Meat Packing	313.9	223.9	282.7	277.6
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	175.5	176.8
9 Metals, Miscellaneous	483.4	313.3	449.8	456.6
4 Paper	1237.1	867.3	1090.1	1119.6
16 Petroleum	828.6	609.0	707.2	721.4
16 Public Utilities	492.4	341.6	484.4	492.4H
6 Railroad Equipment	111.7	75.8	102.9	102.9
17 Railroads	70.1	49.9	57.1	60.2
3 Soft Drinks	1096.6	690.3	1040.4	1049.8
11 Steel & Iron	464.9	325.4	373.3	380.1
4 Sugar	100.9	63.0	81.5	82.9
2 Sulphur	874.7	563.1	775.9	775.9
11 TV & Electron. ('27—100)	130.4	86.8	115.0	115.9
5 Textiles	264.2	183.3	250.6	248.7
3 Tires & Rubber	255.9	170.6	229.9	235.3
5 Tobacco	337.4	182.5	325.9	337.4H
3 Variety Stores	398.9	349.3	388.3	391.8
16 Unclassifd (49 Cl. — 100)	337.7	224.0	290.8	300.2

H—New High for 1960-1961. L—New Low for 1960-1961.

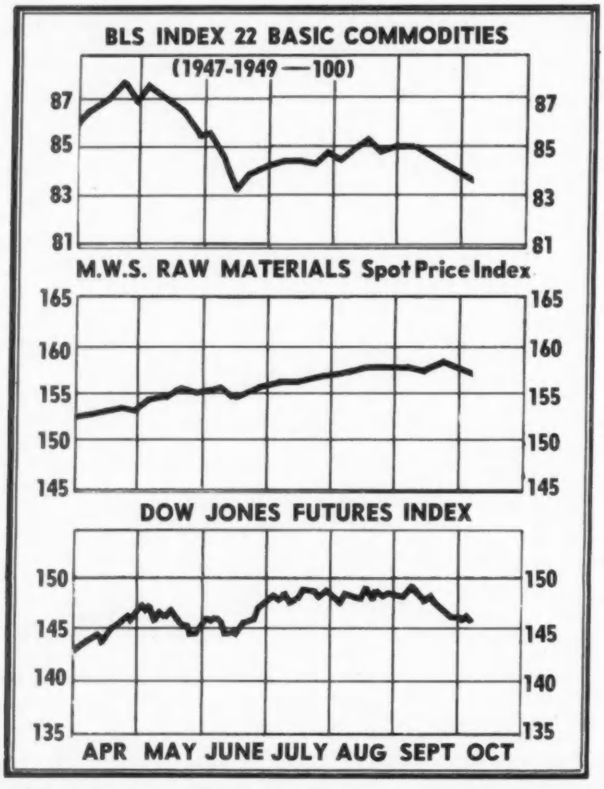
Trend of Commodities

SPOT MARKETS—Sensitive commodies continued to recede in the two weeks ending October 6, although most of the weakness was concentrated in foods. Raw industrial materials were off slightly, with the BLS index of this component down only 0.1%. The overall index gave up 0.5% as the result of a 1.2% drop in food prices. Among industrial materials, pluses and minuses just about cancelled each other out. Textiles were strong, while metals gave ground.

Among the broad range of commodities, further easiness was in evidence and the BLS index of all commodities other than farm products and foods was down 0.2% to its lowest level in more than two years. This steady downdrift in a representative group of commodities is hardly indicative of burgeoning inflationary pressures.

FUTURES MARKETS—Commodity futures receded on a broad front in the fortnight ending October 6. Almost all markets were lower, with wheat, corn, oats, soybeans, lard, wool, hides, copper, coffee, cocoa and sugar losing ground. Cotton and rubber managed to hold their ground but no advances were in evidence.

Wheat futures sold off sharply in the period under review with the December option losing 4 cents to close at 202¾. Exports continue at a high level but there is no report as yet regarding the rate of impounding of wheat under the Government support program. Lower prices for the grain would undoubtedly encourage such impoundings, indicating that the loan program will be an important buffer against any serious decline in prices.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Oct. 3	118.5	118.6	119.6	60.2
Farm Products	Oct. 3	87.8	87.8	89.5	51.0
Non-Farm Products	Oct. 3	127.0	127.2	128.0	67.0
22 Sensitive Commodities	Oct. 6	83.7	84.1	83.6	53.0
9 Foods	Oct. 6	73.3	74.2	75.5	46.5
13 Raw Ind'l. Materials	Oct. 6	91.5	91.6	89.6	58.3
5 Metals	Oct. 6	97.0	93.1	90.7	54.6
4 Textiles	Oct. 6	83.9	82.7	78.6	56.3

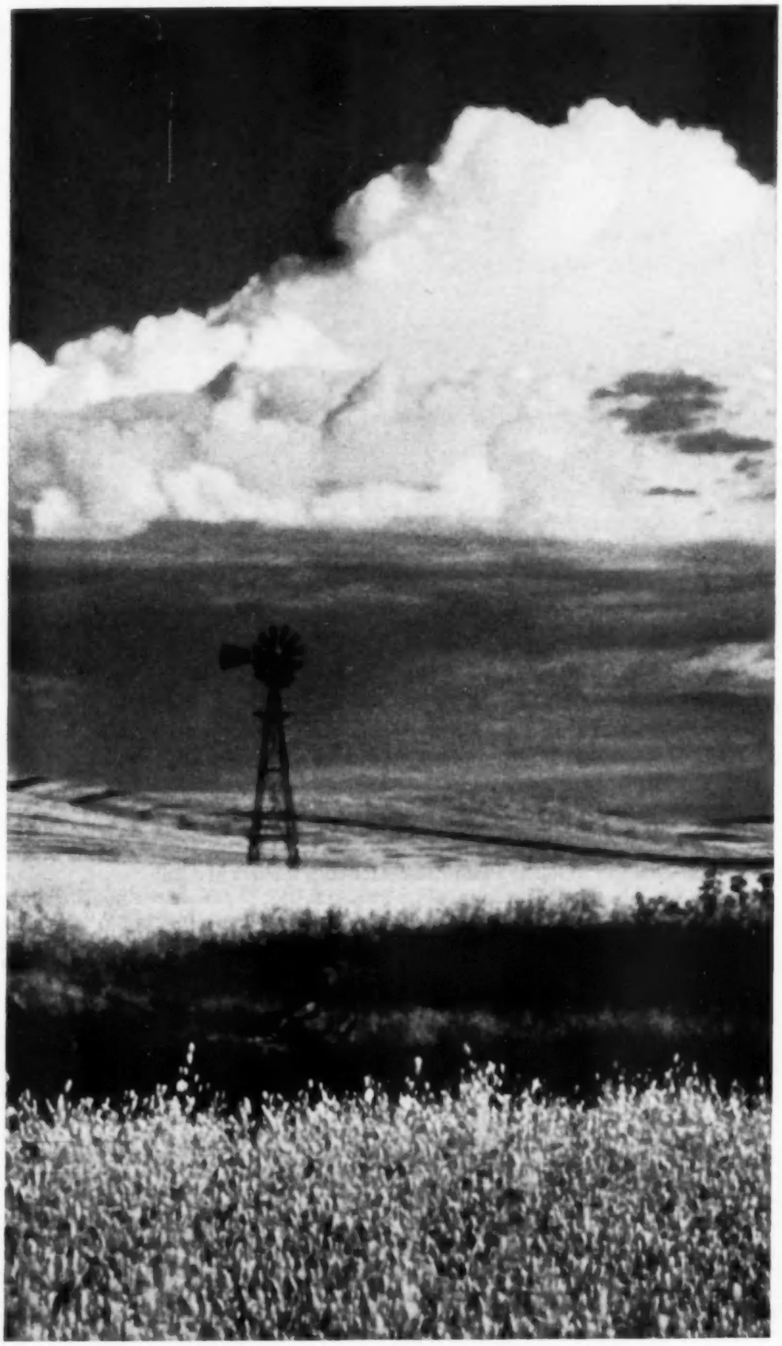
MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	158.4	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	148.9	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1

Out of thin air



...growth power for America

Collier Carbon and Chemical Corporation—a Union Oil subsidiary—literally creates business out of thin air.

For among its products are vital plant foods containing nitrogen, a part of the air you breathe. Practically no vegetation can exist without it.

From natural organic fertilizers, however, the supply of nitrogen is no longer adequate to provide for man's growing needs. Most plants cannot get it directly from the air. Collier can.

Today, by converting atmospheric nitrogen, we are able to replenish the plant food required by bumper crops.

Collier's fertilizers, used in a planned program, can produce an estimated \$4 to \$8 return for every dollar a farmer invests. More than that, these vital foods are rejuvenating soil that was "worn out." One acre today can produce what two did fifteen years ago.

Miracle fertilizers, versatile carbon products and industrial chemicals such as naphthalene—all these are part of Collier's portfolio. They contribute to your way of life and to Union's vitality.

Today, behind *each* of the 8½ million shares of Union Oil stock, there are more than 60 barrels of liquid petroleum reserves...more than 400,000 cubic feet of natural gas reserves...large investments in refinery, transportation and market facilities...large investments, too, in research laboratories and petrochemical plants.

With such diversification, we feel more than equal to the challenge of the future.

YOUR COMMENTS INVITED. *Write: Chairman of the Board, Union Oil Company, Union Oil Center, Los Angeles 17, California.*

Union Oil Company OF CALIFORNIA 76

THE WEST'S MOST EXPERIENCED GASOLINE REFINER

NATIONAL STEEL'S FAST NEW COLOR LINE

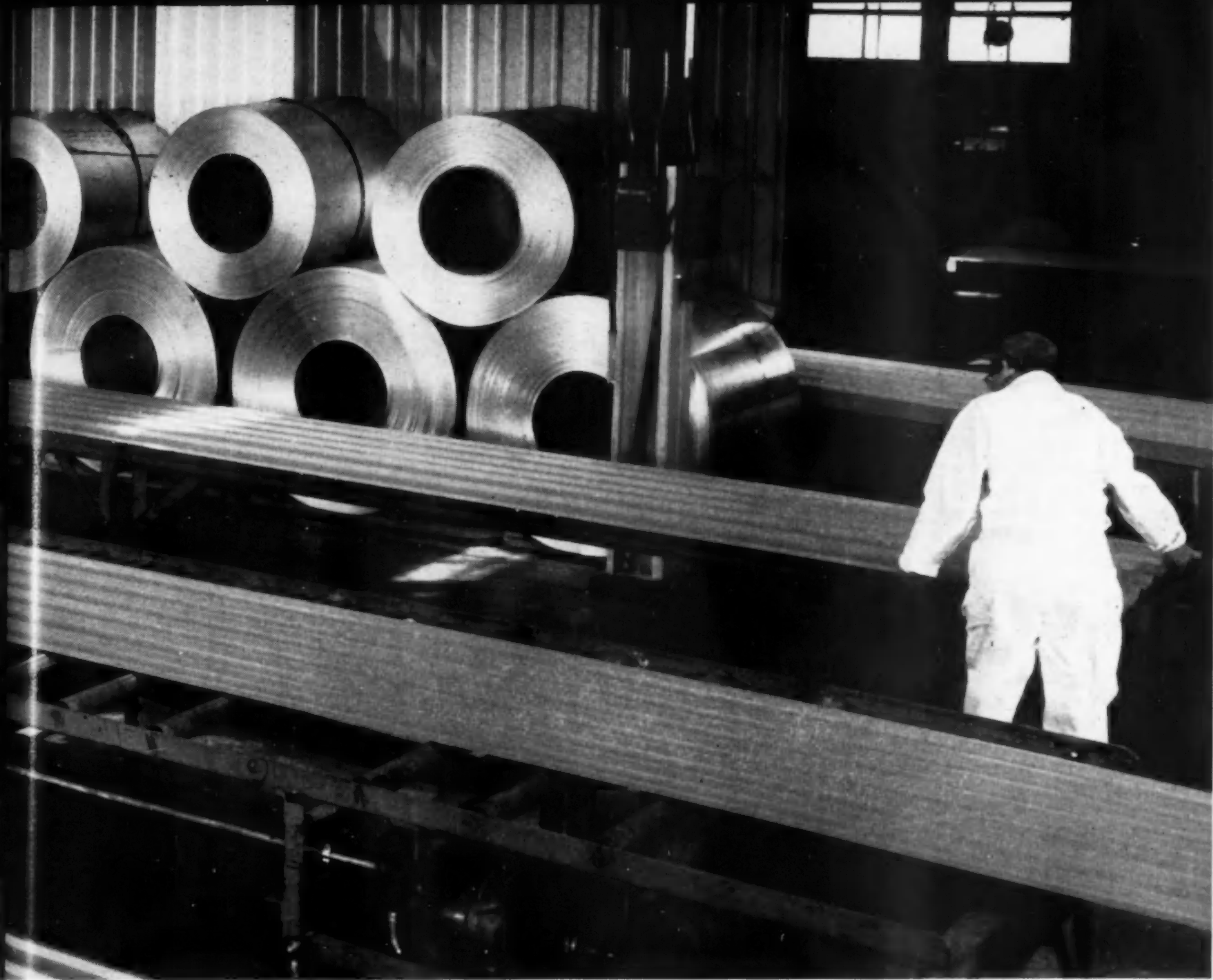
From this new automated finishing line at our Stran-Steel Division—the most advanced of its kind—stream the colorful pre-coated steel panels for our handsome Stran-Steel pre-engineered steel buildings. Stimulated by our pioneering of color, progressive designs and modern production techniques, demand for these modern buildings is flourishing. And this new 600-ft. color finishing line is providing effectively protected, uniformly color-coated steel building panels to meet the soaring demand more efficiently than ever.

Starting with zinc-coated coils that are first roll-formed, then cut into panels, our Stran-Steel Division's new line automatically processes the panels with a bond coat, an oven curing, multiple color coats and a second oven treatment via a unique 4-zone installation. Precision controls linked by twenty miles of wiring unerringly maintain the stringent specifications for paint pressures, oven temperatures and conveyor speeds. The result: Steel panels in any of ten long-lasting and attractive color finishes—all at a price per square foot that's just slightly higher than for galvanized steel alone.

FIVE OTHER MAJOR STEPS TO FURTHER PROGRESS

AT GREAT LAKES STEEL in Detroit, the computer-controlled and operated 80" Mill of the Future—fastest, most powerful hot-strip mill in the world—will provide more and better automobile body sheets.

AT MIDWEST STEEL near Chicago, the most modern and efficient steel finishing plant in existence is providing industry with the finest quality galvanized sheets, tin plate and, soon, hot- and cold-rolled sheets.



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FOR PRE-COATED STRAN-STEEL BUILDINGS

This new finishing facility is one step in a program of progress throughout all divisions in which National Steel is investing well over $300,000,000. Among the far-ranging benefits: greater efficiency and stability throughout our operations; more secure jobs for our employees; more and better steel for our customers; and better values for you, the ultimate consumer of the million and one products made of steel. Other phases of this program will swing into action soon. And we will be bringing you news about them, too.

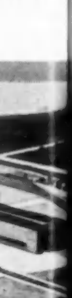
NATIONAL STEEL

NATIONAL STEEL CORPORATION, PITTSBURGH, PA.

SUBSIDIARIES AND DIVISIONS:

GREAT LAKES STEEL • WEIRTON STEEL • MIDWEST STEEL • STRAN-STEEL • ENAMELSTRIP • HANNA FURNACE • NATIONAL STEEL PRODUCTS

Steel



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…W BASIC OXYGEN FURNACES at Great Lakes …ee. Construction has started on two basic oxygen …rnaces—to be the largest ever built—which …ill add new capacity and greater efficiency.

OUR NEW RESEARCH CENTER will be National Steel's headquarters for the expanded, continuing exploration of new and better raw materials, facilities, manufacturing processes and products of steel.

AT WEIRTON STEEL in Weirton, W. Va., new and improved facilities throughout this division increase the production and improve the quality of Weirton's tin plate, galvanized sheets and cold-rolled sheets.

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The Personal Service Department of THE MAGAZINE OF WALL STREET, 120 Wall St., New York City 5, N.Y., *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Gillette Co.

"I have been a subscriber to your valued Magazine for many years. For some time, I have not availed myself of the privilege of inquiring from you about securities. I would indeed appreciate your most careful advice on the problem of what to do with my large holding of Gillette common stock, which I inherited from a family estate last year. The cost of this stock to me for tax purposes, when transferred from the estate, was approximately $60 per share. Since then, the stock has more than doubled in price and I am wondering if I should continue to hold it."

A.B., San Francisco, California

Gillette Co. is the largest manufacturer of safety razors and blades. The company accounts for over 60% of all domestic razor blade sales and is also a major supplier of blades in most foreign markets. Razors, blades and shaving cream represent about two-thirds of the company's total sales, with home hair preparations and cosmetic products accounting for about 25%, and ball-point pens and other items representing the balance. Gillette has increased its proportion of the razor blade market in every year since World War II. The importance of foreign sales is indicated by the fact that, as recently as 1959, the company sold about 3.5 billion blades in foreign markets, compared with 2 billion in the domestic market.

In 1948, Gillette achieved an important diversification of its business through acquisition of Toni Co., manufacturer of the Toni, Prom, Bobbie and other home permanents, as well as hair spray, shampoos, deodorants and facial cleaners. This wholly-owned subsidiary accounts for about two-thirds of the market for home wave kits.

The Paper Mate pen division, acquired in 1955, is the largest domestic producer of ball-point pens in terms of dollar sales. In 1957, the Gillette Laboratories division was formed to market proprietary drug products manufactured by others. Thorexin cough remedy and cold capsules are now being distributed.

While over three-fourths of Gillette's net assets are located in this country and Canada, it is believed that foreign operations account for as much as 40% of total earnings.

The company is progressive in improving its products and successful in marketing. Last year, advertising expenditures amounted to over $38 million or about 17% of sales. The new Super Blue Blade continues to gain in volume and now represents more than 40% of all Gillet blades sold.

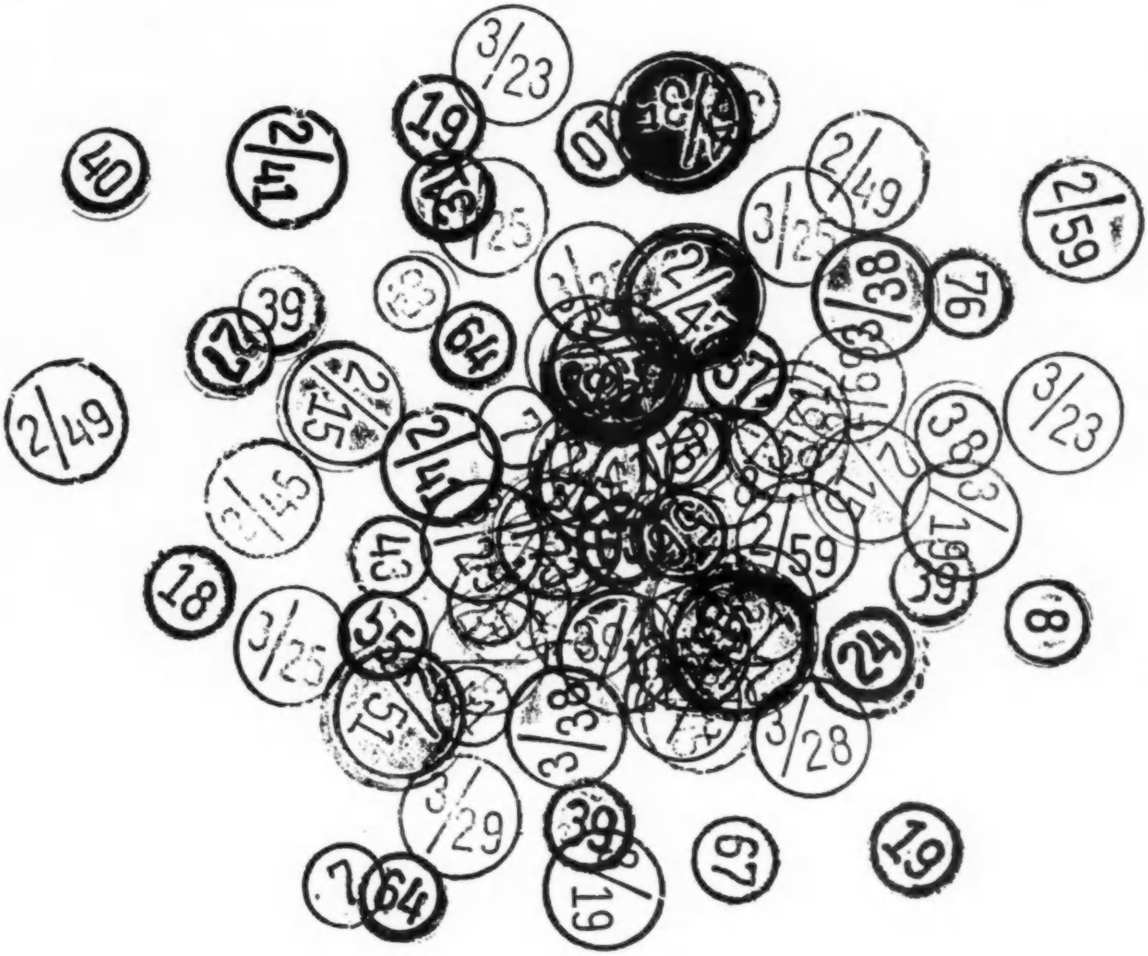
Based on a private market study, the company has stated that "five years ago there was definitely a trend to electric shavers". Now, however, "it looks like electric shaving has pretty well levelled off". The company stated that this was a key reason for its optimism as to the future of its razor and blade business.

Gillette continues to earn substantial funds for expansion purposes, without the need of new financing and, according to an official, the company is "acquisition minded." This fall, the Laboratories division will introduce a decongestant tablet called "Duramed-12". It is claimed that one tablet will give relief from cold and sinus congestion for 12 hours. The new tablets will be priced at 98 cents per dozen. However, the company is still moving slowly with the Laboratories division and results are not expected to be immediately significant in terms of over-all earnings.

In the last decade, total net sales have more than doubled, increasing from $99,350,000 in 1950 to $224,740,000 in 1960. In the first 6 months of this year, sales increased 12.4% over a year ago. Indications point to a new record volume this year.

Earnings over the past 10 years have also more than doubled, increasing from $1.91 per share in 1950 to $3.98 per share in 1960, representing a new peak. These figures are after adjustment for the last 2 for 1 stock split-up in 1955. For the first 6 months of this year, the company reported a further gain in earnings to $2.11 per share from $1.84 a year ago. Recently, an official

(Please turn to page 164)



What would you charge for a new metal that's three times stronger than carbon steel? United States Steel developed just such a metal, "T-1" Steel, and though it's three times stronger, it costs only about 2½ times more. So, designers can frequently use one ton of "T-1" to do the work of three tons of carbon steel—*at less cost.* For example, on California's new Carquinez Strait Bridge, "T-1" saved $800,000 in the total cost of steel.

Is United States Steel reducing its own potential income with this new steel that performs better at less cost? No, because the money saved by "T-1" in one application will be invested elsewhere—in another new bridge, in more machinery, in more farm equipment—continuing the growth of America's economy. This is why United States Steel believes that the *value* of a material is determined by its performance . . . and why the development of stronger, better performing steels is essential to the growth of a stronger America. *America grows with steel.*

USS and "T-1" are registered trademarks

USS **United States Steel**

The American Consumer — Heel Or Hero

(Continued from page 125)

consumers know it. This certainly does not encourage them to embark on a spending spree.

Tired of Being in Debt

In many respects, consumers are much more enlightened at the present time than in the earlier postwar years.

In those years, they wanted the goods that had been denied them so long and were willing to pay the price, even though it meant scrimping for many months to meet instalment debts.

Now, a considerable portion of the consuming public is out of debt, likes the "feel" of money in the bank, and is rather determined to stay out of debt.

Unquestionably, this attitude has been fostered by the numerous articles that have been published in popular magazine during the past few years on what happened to some families that went overboard on "easy credit", such as "We Went Bankrupt—on the Instalment Plan," which appeared in Reader's Digest of January, 1961.

Of importance, too, is the increasing realization that instalment buying is expensive. Such a work as Hillel Black's "Buy Now, Pay Later" may tend to exaggerate the cost of instalment buying, but the reader is left with the impression that he is "taken for a ride" when he buys on time.

Consumers who "save to buy"—as opposed to those who buy now and pay later—usually are much choosier and often may decide, after looking around, that they prefer the money in the bank to the new article they had been considering.

Since many merchants of "big ticket" items derive a substantial part of their incomes from interest on instalment sales or from kickbacks from financing organizations, rather than from normal merchandising profits, cash customers are not always liked. Sometimes, customers who indicate that they intend to pay cash are treated rudely in order to discourage a sale.

Arguing Both Sides

This matter of whether or not there will be a substantial consumer buying movement in the period ahead, aided by a pronounced increase in the use of instalment credit, seems to be one of those cases where it is easily possible to take either or both sides of the argument.

Recently, the Survey Research Center of the University of Michigan, which has been surveying consumer attitudes for a number of years, found that a decisive improvement had occurred in consumer confidence since last Spring, with consumers' intentions to buy big-ticket items also showing considerable improvement.

Although the Survey Center noted that the responses to the survey on "intentions to buy" did not indicate that any great buying movement was ahead, consideration in all probability should be accorded the progressiveness of a change in consumer attitudes, the first such in a long time, and the "contagiousnesss" of steppped-up buying once it gets under way.

Keeping Up With the Joneses

Consciously or unconsciously, consumers are motivated to a high degree by the spending attitudes of their community or of their friends.

For many months, it has been "fashionable" to restrict purchases of new cars and other durable goods. There has been much less social pressure to buy a new car, television set, and so on.

Now, as indicated by the University of Michigan survey, the tide has turned a little.

Once these pressures begin to rise, they frequently tend to mushroom. Without knowing quite how or why, many consumers suddenly may decide to buy new automobiles, for example, even though they thought that they had been determined to make the old car do for another year or two.

In the "discretionary" area of consumer durable goods, the upswings and downswings are a combination of economic and psychological factors at the moment. The uncertainty caused by the

outflow of gold may also be a factor.

The "Spending Cycle"

Consumer response to changes in disposable income is far from constant. Disposable income may rise, as it has over the past year, without stimulating any increases in total retail sales.

Some economists now maintain that there is evidence of a consumer spending cycle and that, even though this cycle is influenced to a certain degree by the general business cycle, it still is sufficiently "independent" to affect the general business cycle considerably.

The cyclical movements in consumer spending, it is said, are primarily the result of what seem to be cyclical movements in the purchase of automobiles and other durable goods. These latter cyclical movements are related to what might be called the "instalment credit cycle," that is, the expansion and contraction in the use of instalment credit, as measured by new extensions.

The independence or semi-independence of the consumer spending cycle is evident, it is asserted, from the fact that the topping out and bottoming out in new instalment credit extensions tend to precede the peaks and bottoms of the business cycle.

New extensions of instalment credit, seasonally adjusted, made a low last Winter and have been edging higher since then, much as they did in 1949, 1954, and 1958 on the eve of big buying movements.

Keep Fingers Crossed

It looks very much as if business men will have to keep their fingers crossed for the next eight to ten weeks, hoping for the best but prepared to accept considerably less in the way of expansion in consumer spending than suggested perhaps by historical relationships.

The tension created by the international situation, the calling up of many young men for a period of active military duty, the large and ever-increasing cost of consumer services, and the high degree of saturation of consumer requirements for goods are among the deterring factors that cannot be measured or evaluated at this time. END

The Rails Come To Life

(Continued from page 134)

did not use an increase in revenues (up 3.1%) as an excuse to let out expenses, but instead cut back by 4.3%.

The picture was pretty much the same down South; **Seaboard Air Line** reported lower operating expenses for the month of August (off 3.2%), but racked up a 7.1% gain in gross. Even the prosperous **Norfolk & Western** kept a close eye on the expense line; a sharp 13.7% jump in operating revenues was accompanied by a mere 2.9% rise in expenses.

Recent monthly evidence of this type is a fair indication of what should happen in the period immediately ahead. True, a considerable amount of deferred maintenance will have to be taken care of, particularly in the East. But managements are not likely to approve a material change in the maintenance budgets until conclusive evidence appears that the railroads' earning power is on the comeback trail. This is particularly true since the present good-order car fleet is handling the available traffic without any noticeable strain, while the good weather season for track work is fast drawing to a close.

Featherbedding Victory Could Offset Expected Wage Increase

As far as wage costs are concerned, the present contract expires at the end of October, 1961. Unless something unusual happens, the new agreement will undoubtedly contain a provision for higher wages and, hence, higher costs for the industry. *However, the agreement is not likely to be signed until sometime in early 1962 and its overall impact on railroad costs could be considerably softened if labor will agree to some rule changes. Elimination of the fireman from the diesel, by itself, would yield impressive economies more than sufficient to offset a higher pay scale.*

Thus, with operating cost still very much under close perusal and with the outlook favorable for a continuation of the upward revenue trend, a basis exists for impressive railroad earnings over the near term.

Washington — To these prospects for continued profits improvement must be added the feeling that the railroads are finally in for better treatment from Washington. Considering both factors and with the market now in a bargain-seeking mood, the railroad rally may well continue, subject, of course, to usual corrective moves. Not all carrier stocks will participate to the same degree, reflecting the differences in the basic positions of the individual roads. But the trend appears to be definitely upward for the group.

Three Major Quality Groupings

Just as all Gaul was divided into three parts, it is possible to identify three major groupings of railroad stocks, each of which has a different following. The first category might be defined as the quality roads, or those carriers having the most long-term appeal in an industry with an uncertain future.

► Roads in this class would include: **Santa Fe, Illinois Central, Kansas City Southern, Southern, Denver & Rio Grande, Southern Pacific, Union Pacific** and **Western Pacific.**

This type of rail stock is to be found in the typical institutional portfolio and it is from this quarter that the most active demand may develop in the period just ahead.

► The second grouping of rail stocks consists of the "middle tier" companies—issues which at one time might have been in group I or perhaps have always remained close to but below the top classification. Roads in this category have not usually been covering their dividends by wide margins, but they should inspire more confidence among their followers in the months ahead. Examples include **Rock Island, Chesapeake & Ohio, Great Northern** and **Northern Pacific.**

Since this segment of the rail list offers the fattest dividend returns, it may well attract the most attention in nearby markets. Potential buyers of these stocks include some of the more daring institutions and probably the average trading account.

► The final grouping is that of the highly speculative railroads and, as one might expect, these are mostly Eastern roads. Typical specimens include **New York Cen-**

tral, **Pennsylvania, Baltimore & Ohio, Reading, Erie-Lackawanna** and the **Delaware & Hudson.** Close examination of the problems of these carriers makes it hard to believe that any interest could be aroused in them. Here, the passenger problem is far more serious than that facing many roads in the West which can still live with their burdens. Here, too, the competition from trucks is the keenest and there is little indication yet that the rails are making any headway in their efforts to stem diversion of traffic to the motor carriers. Add in the additional burdens of heavy property taxes and high labor factors and the picture is indeed grim, particularly when one considers that most of the deferred maintenance in the industry is located in this one geographical area.

Leverage in Eastern Roads

► What are the attractions of these stocks and who buys them? Basically, the Eastern railroads serve the major heavy industry regions of the country and if the pickup in business continues in the vein which seems possible, a considerable uplift in traffic will take place for these roads. Needless to say, the increase will be well above average for the railroad industry as a whole. Thus, with a pronounced revival of volume on very lean cost structures, the highly leveraged Eastern carriers should sport impressive profit and loss statements in the months ahead.

Not only will the Eastern roads be the major beneficiaries of higher output by heavy industry, but they will also be the prime recipients of any relief which emanates from Washington, particularly in the passenger end of the business. Similarly, any charge in labor work rules which would permit more efficient work practices stands to provide the largest economies for the railroads with the highest wage ratios—again the carriers in the East.

Basically, then, the case for buying the shares of the Eastern railroads rests on the old saw: hope springs eternal! Add the potentially sharpest increase in earning power; sprinkle in a dash of political news from Washington and a touch of optimism on the featherbedding situation and you have the ingredients which tickle the palate of the speculators who buy the shares of the Eastern rails. It is hard to visualize a rail market without some participation on the part of those two titans of old: New York Central and Pennsylvania.

The Two Crippled Titans

New York Central is attempting to stage an earnings comeback over the balance of the year but its efforts are not likely to be sufficient to erase the eight-month deficit of $26 million. For the year as a whole, the road could be in the red by not more than $5 million or so, which would mean that a fairly good earnings showing would have to be accomplished in the closing months of 1961. With the big loss through August already a matter of record, the speculative following of this railroad may choose to focus on results in the months ahead which could be quite impressive in their own right. Accordingly, this laggard rail stock could participate more fully in any further upswing of the group.

Pennsylvania Railroad will incur a loss for 1961, according to official views. It will undoubtedly be smaller than the $26 million deficit for the first eight months of the year, which also suggests a good showing in the months immediately ahead. Perhaps more important than the monthly earnings statements still to be released in 1961 is the Pennsy's huge interest in Norfolk & Western. With 0.24 shares of Norfolk & Western Common for each share of Pennsylvania, the latter issue may well command a market following on the theory that it is a cheap way to acquire an interest in the profitable N.&W.

END

What Third Quarter Earnings Reports Reveal

See Our Issue of November 4

Britain's Agonizing Reappraisal And Decision

(Continued from page 131)

provide a substantial guarantee that their present trading advantages in the United Kingdom market would in no way be andangered by the new arrangements.

George Hees, the Canadian Minister of Transport, told the United Kingdom representatives in a blunt fashion that their government would be forced to choose between the Commonwealth and Europe, and Howard Fleming, the Canadian Minister of Finance, who was also present, stated that he did not see how the United Kingdom could enter the European Common Market and at the same time preserve the existing trading arrangements with the other regions of the Commonwealth.

At the end of the conference Canada, Australia, New Zealand, India, Ceylon and a number of the new African states issued a joint statement which expressed doubts whether the British Government could frame tariff agreements with the European Common Market countries which would safeguard Commonwealth trade interest in an adequate and effective manner.

It was generally agreed that any dismemberment of the present trade ties among the Commonwealth countries would damage some or all of them, with a particularly adverse effect on specific industries and areas. The communique claimed that this might force the countries of the Commonwealth to revise their trading policies and to form new international trading blocs, thus weakening the economic and perhaps eventually the political cohesion of the Commonwealth as a whole.

Difficulty of Maintaining A Foot in Both Camps

To be sure, Macmillan and other members of his Cabinet have assured the Commonwealth countries many times during the past year that they will make every effort to safeguard the interests of the latter in the United Kingdom Market in the negotiations with the Common Market countries. But the practical value of these assurances is questionable. **At the present time, owing to the shaky position of sterling and the unsatisfactory British balance of payments situation, Mr. MacMillan and his advisers are not going to be in a strong bargaining position.**

In any case, the Western European governments are under no compulsion to pay much attention to MacMillan's representations on this score. Indeed, the most that the British Government could hope for under the existing circumstances is a Common Market tariff structure whose duties would be low enough to allow fairly large quantities of farm products from such Commonwealth countries as New Zealand and Australia to continue to enter the United Kingdom market. If this should not please those countries it might not offend them too much.

Canada, Australia, More Seriously Affected

Of course, the interests of the Asiatic and African sections of the British Commonwealth in this situation are not as seriously affected as the white Dominions such as Canada, Australia and New Zealand, since most of the large exports of the former group, such as sugar, tea, jute and rubber, would probably continue to come into the new Common Market area practically free of duty. Indeed, the chief concern of these tropical members of the Commonwealth at the present time is the tariff preferences which the Common Market countries have already granted on similar imports from French North Africa and former regions of the French African Empire.

At the present time a great deal of controversy and discussion is going on in Canada and Australia concerning the exact effect which Britain's proposed new trade affiliation would have on the position of their export trade to the United Kingdom market.

Some observers claim that the Dominions might even benefit from the new arrangements in the long run because, with the probable further expansion of its economy during the next decade, the Common Market will offer an enlarged market for the exports of the Commonwealth countries which will more than compensate for the loss of their tariff preferences in the British market.

Further, certain important natural product exports to the United Kingdom, such as Canadian nickel and asbestos and Australian wool, will not be greatly affected by prospective tariff changes since they will probably continue to come into the new Common Market area free of duty. Some have gone so far as to suggest that Canada try to integrate herself into the European Common Market, but there has been little official interest displayed in this idea in Canadian governmental circles in Ottawa.

EEC Position on Farm Products Not Yet Defined

It has also been pointed out that the European nations which are at present members of the European Common Market have not yet made up their own minds about the tariffs which will be levied upon each other's exports of farm products. At the present time, both West Germany and the United Kingdom want to continue to give their domestic agriculture some protection, whereas France would like free trade in farm products throughout the Free Market area, together with tariffs on imports of farm products from the regions of the world outside Europe.

Britain Not Likely To Be Deterred By Objections

There is no doubt that the Macmillan Administration must have been surprised and somewhat annoyed at the adverse reaction on the part of the Dominion and Commonwealth governments. But it is doubtful whether this opposition will cause Macmillan to suspend the discussions with the Western European countries on Common Market participation. It is still remotely possible that the negotiations may break down because of the inability of the British government to work out a satisfactory compromise on this vital question of imports from the Commonwealth countries.

► But if this arrangement does go through, and does not take a form satisfactory to the Dominions, these governments may be forced to make far-reaching changes in their own trade policies. Canada might be compelled, for example, to orient her export trade still more strongly in the direction of the United States than has been the case in the past, or to cultivate new markets in Latin America and Asia. Both Australia and New Zealand might similarly seek new markets in the United States and in Asiatic countries to compensate them for the loss of exports to the United Kingdom.

There has already been a rapid growth in the volume of trade between Australia and Japan during the past two or three years. At all events, many significant changes in the patterns of trade throughout the Free World will be bound to follow Great Britain's history-making entry into the European Common Market. END

The Battle For Trade

(Continued from page 119)

States was able to maintain for so many decades over foreign competitors is now a thing of the past. Is any easy, new solution of our problem in sight?

Automation, by this time an entirely familiar development on the domestic front, has had an economic significance that can hardly be exaggerated and has certainly sharply reduced the costs of repetitive operations. Just the same it is doubtful whether it can offer us more than a temporary advantage in world trade. Other countries can automate just as successfully as we can.

► In a recent TV program, Dr. Albert Burke cited the example of an English factory at Dorcester in which two specially designed machines working twelve hours a day can turn out all the light bulbs that are needed in the British Isles. Another significant automated process—which foreign factories can use just as well as our own—was the printing of complex radio circuits on a card, eliminating the former tedious wiring by hand.

As a matter of fact, foreign industry could even, in some cases, gain on us by the adoption of automation. This is because their workers are usually less trained than our own—and automation would simply allow them to dispense with semi-skilled workers. In other cases, foreign industry can take full advantage of our discoveries, avoiding investment in obsolescent intermediate stages; thus an Asiatic country installing telephones for the first time can go directly into the most up-to-date dial system. Finally, we are saddled with a heavy investment in obsolescent plants — many of which cannot be readily adapted to automation —while our competitors in western Europe and Japan often possess new plants with the most modern equipment.

► Perhaps the most dangerous threat is that Soviet Russia, despite its large mass of inefficient, poorly trained and undernourished labor, could increase its efficiency enormously with only a small staff of competent technicians. In any case, automation is not going to provide an easy solution for our present competitive problems.

What Can We Do?

Many American companies have solved this problem on an individual basis by "joining them," that is, by establishing subsidiaries and affiliates abroad. This Magazine has covered these developments in detail, describing both the companies involved and the various methods of participating in foreign industry.

But this provides no answer for the country at large; people are less mobile than capital, and most of us are going to have to stay here and face this problem of intensified foreign competition.

It should be evident immediately that there can be no complete solution. The end of the era in which America was the unchallenged industrial leader has come; in a sense many other countries have been "Americanized," and we shall have to accept the consequences, among them a continuing keen competition for international markets.

Tariffs — But we certainly should aim to hold our own, to prevent further deterioration in our relative position. Tariffs and other trade restrictions may suggest themselves as an immediate answer—only to be rejected after further thought. For they will give no protection in any foreign markets, usually invite retaliation, and would probably tend to increase the inefficiencies and high wage costs that are largely responsible for our present situation.

• A sound approach to our problems would be to assure that every artificial handicap against American industry is removed. This means, concretely, realistic depreciation rates reflecting inflation and obsolescence; a ceiling on overall corporate taxes, or at least some relief of double taxation; and a rigid restraint upon further wage advances in excess of productivity increases.

There are, of course, powerful political obstacles in the way of each of these corrective programs, but events may oblige the Administration to take the necessary steps if it is to meet the problems arising out of the cold war, and the disruptive international tensions that are bound to continue for some time to come. Under such conditions, as always, the genius of our people and the ingenuity of American business will come to the rescue and, as has been true throughout our history, will close ranks and stand together in any crisis that faces the nation. END

Discount Selling Revolutionizing Retail Store Operations

(Continued from page 138)

firm believer that it is extremely difficult, if not impossible, to raise a third-rate store in any community to the number one position. To do this one must change the "public image" that has been in the thinking of thousands of shoppers, perhaps for several decades. Thus, when making acquisitions, Lazarus has been willing to pay a good premium for the number one store and, once acquired, has worked hard to improve the efficiency of that store, often adding branches where the opportunity exists. Associated Dry Goods has made progress in much the same way, but Federated emphasizes full-line stores with hard goods important, whereas Associated stresses fashionable ready-to-wear. Federated

is apparently enough concerned about discount houses to meet competition in some areas with twig stores. As a growth situation the stock sells for about 25 times earnings and yields 2.1% on the dividend of $1.10.

Gimbel Bros. (81). Increasing profitability of branches, improved merchandising margins from the main stores, and successful cost reduction have contributed to Gimbel's sustained growth. From a 1950-52 average of $2.35, earnings per share have grown to a 1958-60 average of $4.40. So far, no plans to join the trend toward discounting are in evidence. The company plans to add two large branch stores in the Pittsburgh area and another near Washington, D. C. The stock sells at 17.2 times possible earnings this year of $4.90 and yields 2.7% on the dividend of $2.20. A year ago the company earned $4.55 per share.

R. H. Macy (65). In addition to the largest department store in New York, Macy's operates five major stores across the country and 30 branches. About 35% of the total floor space is in the New York area, 25% in New Jersey. Branch volume now accounts for about 40% of total sales. Promotion of credit business is helping volume as Macy's a few years ago was essentially a cash-and-carry operation; a shopper was required to have a covering balance in the "D. A. Account" before she could make a purchase. A total of ten new branches are either under construction or in the planning stage, and this represents a significant increase relative to the present operation. Near-term earnings are expected to improve somewhat over the 1960 earning power of roundly $4.00 per share. The stock yielding 3% appears reasonably priced and probably entails little downside risk.

Sears, Roebuck (72). Sears is showing one of the better sales gains this year over last year. September sales ran 7.7% ahead of last year with year-to-date volume about 3% ahead. The 75th anniversary sales have been a key reason for this gain. The company is also benefitting from last year's $69.2 million outlay for 22 new retail stores and 34 sales offices. While there may have been some mark-downs in connection with the sale, it is thought with some confidence that '61 earnings will top last years' $2.55 and that equity in subsidiaries' undistributed earnings may be somewhat ahead of last year's $0.44. On the surface the stock may appear expensive at 27.4 times possible 1961 earnings of $2.70, but if the undistributed subsidiary earnings are added in, the ratio is a more reasonable 23 times. So far, Sears maintains that it offers just as good values as discount houses and has not entered this field. While keeping its prices close to the discounters' tags, which is possible through high volume purchasing and an efficient organization, Sears also offers credit and other services such as repair and installation that most discount stores do not provide. The company's fine reputation stands behind the merchandise offered, another important advantage. However, Sears' management is not unmindful of the threat of discount houses, and it continues to tighten up its own organization. END

The Rise And Fall Of Glamour Stocks—And Why

(Continued from page 122)

diversification for auto parts and rail equipment manufacturers. In each case the companies had idle plant facilities which could be converted quickly, and at low capital costs, to the production of transistors and other electronic components.

The impact on the major transistor companies has been disastrous. If **Philco's** transistor business falters, the damage can be at least partially offset in other operations. But Transitron is solely a producer of semiconductors, and hence had nothing to relieve the full impact of competition and price pressures.

What is significant here for investors is that for both Transitron and Texas Instruments the fault doesn't lie with the companies. Management could undoubtedly see the handwriting on the wall. Rather the error was committed by unsophisticated analysis which failed to note that the pattern described **must** happen in any industry where there is no secret as to the methods of production and where many producers can enter the field cheaply. It is just a matter of time.

These two companies also point up another basic pitfall of speculative stocks selling at high price —earnings ratios. That is simply that their earnings must continue to grow or the props are pulled right out from under them. By contrast utility stocks and high quality industrial blue chips seldom react violently to a decline in earnings because investors are confident that in time the earnings picture will reverse itself again. No such confidence is felt in current favorites.

The Public Snatched Too Eagerly at Vending Machines

The vending machine issues also illustrate the dangers of even small earnings setbacks when speculative stocks fly too high. **Vendo** reached a high not too long ago of 77 on 1960 earnings of $1.20 per share. This is a price/earnings ratio of almost 70. When earnings fell by over 50 percent in the first half of this year, the stock virtually collapsed, sliding 31 points in a matter of weeks.

Universal Match presents exactly the same type of picture, except that the situation has been aggravated by the on-again-off-again merger negotiations with **Universal Controls.** But to explain the collapse in these stocks it is first necessary to understand their rise—and this provides some hope that the stocks may again recover.

Vending machines have understandably captured the imagination because they answer a simple and easily understood need. But of perhaps greater importance is the fact that they offer one of the few broad-scale means of participating in the enormous growth of services in our economy. Everyone know that the service industries comprise the most rapidly growing segment of the Gross National Product. But by their nature few of them offer much chance of public participation. Hence, when the vending machine producers and operators came along as publicly held companies they offered one of the few available investment opportunities in services. The result was the familiar pattern in which everyone tries to buy into just a few companies. Prices soar far out of proportion to reasonable earnings

expectations.

The saving grace for the disappointed investors in vending machine stocks is that the field is composed of literally hundreds of small operators, making it likely that the few big companies will be able to engage in aggressive acquisition programs that can provide big jumps in earnings in relatively short order. **Interstate Vending**, for example, one of the largest companies, has acquired over twenty independents in the last few years, and will probably continue on its gobbling course. So will the others.

In the meantime, however, the stocks are still overpriced even after their protected declines.

Hurrying Slowly

Underwood and **Nafi** are interesting cases because they illustrate the pitfalls of discounting changes too far in advance. Underwood had been a sick producer of typewriters which had sunk and lost a fortune in an abortive attempt to invade the electronic business machine field. Suddenly, when things looked blackest, Olivetti, the successful Italian business machine producer, bought 69% control of the company and all seemed healthy again. The stock soared—only to slide back almost 70 percent after investors realized that it would take years to rebuild the company into a profitable entity.

Seasoned investors realize that there is usually little promise in the faulty company trying to reverse a long run of bad luck. The occasional instance in which the resurgence is successful is far outweighed by the scores of failures. For every American Motors there are ten Studebakers.

Nafi is a different case, however, since it represents the attempt to use a corporate shell as the vehicle for constructing a diversified industrial empire. Its current structure boasts a major pleasure boat manufacturer, automotive textiles, oil and gas operations and two television stations.

The main excitement stemmed from its acquisition of Chris-Craft, the world's largest manufacturer of pleasure boats. But since the company had been privately held, few investors could accurately appraise its profitability. Furthermore, in the fever generated by speculators, even fewer realized that pleasure boat sales, especially in the higher brackets, would be subject to sharp swings along with general business conditions. When the facts of life were revealed, the stock plummeted over 60% to its present far more reasonable level.

Sensible Appraisal of Future Earnings Growth

The reasons for declines are usually obvious after the fact. But there is little value to ex post facto explanation unless it teaches lessons for the future. The lesson here is obvious. Any group of stocks that become popular investment favorites—especially if they represent new industries—will be carried to extreme price levels.

In some cases, such as **American Machine & Foundry,** there is a sufficiently strong earnings base to lend hope of recovery through a natural growth in earnings. But in the case of the true high flyers the jig is up once earnings growth halts.

One arithmetic example should make the point. If a stock is selling at sixty times earnings, and earnings are expected to double each year, then it is selling at thirty times next year's earnings, fifteen times the following year's profits and seven and a half times earnings four years hence. Under these circumstances a case could be made for paying such an enormous multiple.

But if, as is more likely, a good growth company settles down after an initial earnings spurt to a growth rate of 25% a year, then at sixty times earnings the investor is paying thirty times earnings three and a half years hence, and fifteen times earnings six years away. There is too much risk in earnings that distant to warrant sane purchases. This is why the stocks collapse as soon as there is a slight hesitation in the rate of earnings growth. END

The Fortunes Of The Natural Gas Industry

(Continued from page 141)

ing a new version of the "Harris Bill" which would support the use of an area formula rather than an individual case-by-case approach for setting producer prices. In a statement at the American Gas Association's Convention last week in Dallas, President L. T. Potter, endorsed the pending bill, noting that many representatives of the producers pipelines and distributors also supported it. He warned that industry recalcitrants who persist in opposing the area price in principle, might well cause significant amounts of gas to be held off the market. In any event, the pressures that are developing would appear to lend themselves to a period of price stability even though there may be a further eventual increase in field prices.

Can Higher Costs of New Fields Be Passed on To Consumer?

Despite its problems, the industry continues to foresee a period of extremely rapid expansion. The American Gas Association estimates that by 1970 the gas pipeline and distributing companies will spend a further \$30 billion, a figure well in excess of \$22 billion of assets at the end of December 31, 1960. Thus, gross plant of the industry, which more than doubled from 1951 through 1960, is expected to double again in the 1960-70 period. Of the estimated amounts needed for new construction, about \$12 billion will be for transmission pipelines, \$9.5 billion for distribution facilities, \$6.1 billion for production and storage facilities and the remainder for underground storage and for other miscellaneous items. By any standard these are large sums, but they will undoubtedly be raised if necessary. The cost, however, is of direct interest to the investor, as the Commission seems willing to allow some of the higher gas costs to be passed to the consumer but apparently is reluctant to include any portion of higher financial costs.

If the equity return is held to 10 or 10½% and only partial allowance is made for incremental costs of debt, it is the senior security holder whose position will be eroded and who, therefore, will demand a greater return for his commitment of capital.

Further, if institutional buyers, such as insurance companies which have financed most of the industry's growth up to this point, were to cease providing capital, it would make it extremely difficult for the pipelines to expand their facilities.

Markets Now Being Threatened by Competitive Fuels

► The problem of winning an adequate selling price for gas is the crux of future earnings. Even now the competitive pressures from other fuels at the far end of some of the long distance transmission facilities are making themselves felt. A pipeline that is seeking a 7% overall rate of return on its capitalization (12% to 13% on the equity portion), and at the same time is having difficulty in selling gas for industrial uses, may be adding to its difficulties rather than alleviating them. This situation is not imaginary.

Practically all companies along the eastern seabord have felt the impact of this development in recent years. **Southern Natural Gas** has lost boiler fuel sales in Alabama as did **Northern Natural Gas**, at least temporarily, to an electric plant in Minnesota. Competitive pressures have also restricted growth of sales both to industrial and residential customers in the Northwestern states. This factor does lend stability to field prices, but at the possible cost of adequate future supplies. At the moment, it is difficult to foresee how the industry will solve this dilemma but greater flexibility both on the part of the Federal Power Commission and management of the industry appear to be an absolute necessity.

Two Categories of Companies

► The pipeline companies have been gradually divided into two separate categories. **El Paso Natural Gas Company, Tennessee Gas** and **Panhandle Eastern** remain deep in the morass of regulatory problems. Each has rate cases that go back to the mid-1950's and which still are not close to final settlement.

Others, such as **Northern Natural Gas, Texas Eastern, Texas Gas** and **Transcontinental Gas Pipeline** have reached agreements with their customers and are now able to calculate their future earnings with a fair degree of accuracy. Assuming the new Commissioner does not depart materially from either the past regulatory practices or statements made by the new Chairman, these companies should enjoy stabilized earnings and unjeopardized dividends. Because of the drain on cash caused by sinking fund requirements, however, any expansion still will have to be financed largely with new funds.

The outlook for **El Paso** continues to be shrouded in proceedings before the courts and the Commission.

Among the issues still to be settled are the rate of return, tax benefits to be allowed for statutory depletion and intangible drilling costs, return on well-mouth properties, retention of past tax losses and final authorization to merge the former Pacific Northwest Pipeline. In the latter case, the Supreme Court last week granted certiorari to the State of California, which is trying to dissolve the merger. The Department of Justice has also challenged the combination but is not yet actively pursuing its case.

Defensive Steps by Other Companies

Panhandle Eastern Pipeline continues to seek an order authorizing a fair value for owned gas reserves. Their claim is that they should be entitled to receive the same amount for their gas as an independent producer selling to them. Last month, however, the Commission, which then had a somewhat different composition, denied commodity value for natural gas and instead authorized a utility type rate of return for the company's well-mouth properties.

Tennessee Gas Transmission has taken some drastic steps to free itself from what it considers to be punitive regulation by the Commission. In February, 1961 it segregated all of its non-regulated properties, some 40% of the total, into a new corporation called **Tenneco** and then sold 25% of the voting interest in this new subsidiary so that it no longer had to consolidate the pipeline for income tax purposes. This was, in effect, a spin-off of a large portion of its facilities. While not suggesting that Tenessee has any plans in this direction, it would not be altogether inconceivable that Tennessee and perhaps others might try to sell the pipeline properties to the utility companies that buy gas from them.

Integrated Companies in More Comfortable Position

Integrated companies, especially those that are primarily distributors on the retail level, have continued to fare better than the transmission companies. **American Natural Gas, Peoples Gas Light & Coke, Consolidated Natural Gas** and others in this group, even though they are partially regulated by the Federal Power Commission, have benefited substantially from the hiatus in the rise in the price of gas. As future increases probably will be at a less rapid rate, the companies can promote the use of appliances with less opportunity for competitors gleefully to point to potential customers that gas prices have been raised numerous times.

More inducement for appliances is especially important at a time when new housing starts are at a somewhat lower rate than in the past and the saturation of the heating market, except in small pockets of the country, is so high as to preclude further important conversions from other fuels. Recognizing this fact, both the integrated companies and the straight distributors have been accelerating their promotion of air conditioners, gas fired refrigerators, clothes dryers and water heaters. The industry is also stepping up its research and development expenditures in order to develop still other important new applications for gas within the early future. These industry efforts are being significantly assisted by **Arkansas Louisiana's** manufacturing divisions, **Whirlpool Corporation, Carrier Corporation's** Bryant Division, and many others.

Distributors Very Favorably Situated Now

Among the distributing companies, **Arkansas Louisiana Gas** (which obtains about 40% of its income from manufacturing operations related to the gas industry) and **Northern Illinois Gas** are two of the leaders in developing new uses and seeking more efficient operating methods. **Northern Illinois**, in particular, has demonstrated a remarkable record of growth, and as it approached a high saturation in the heating market has simultaneously developed an effective promotional program for expanding other uses. A number of com-

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panies in the Southeast also appear to provide interesting long term opportunities as the gas air-conditioning market gains in acceptance. Among the companies that stand to realize the greatest gains from this source are **Atlanta Gas Light, Alabama Gas, Lone Star Gas, Pioneer Natural Gas and Southern Union.**

While the distributing segment of the industry presently is riding a crest, adequate gas supplies at fairly constant prices will be needed in the future if they are to continue to develop higher earnings. Anything the new Federal Power Commission may do to relieve the industry of the burden now encumbering it will be helpful.

- **It is too soon, however, to draw conclusions as to a possible change in the investment status of the transmission companies. For the moment their attraction is substantially confined to their dividends and yields. For participation in the future growth of the industry the stocks of the distributors and integrated companies comprise the better vehicle.**

- **Over the short run the interests of the producers, transmission lines and distributors may often be diverse. Over the long run, however, all of them are equally dependent upon sound policies that will promote the discovery and development of adequate reserves. A more short-sighted attitude, either by individual companies or the regulatory agencies, will inevitably bring unpleasant consequences.**

END

The Trend of Events

(Continued from page 112)

remains at a high level and wholesale prices have not shown any significant tendency to increase. However, Fed policy would necessarily become more restrictive, if our balance of payments position deteriorated markedly.

The Fed and the Dollar

International exchange markets are still nervous about the dollar. Early this month, over $100 million in gold flowed out in one week, partially due to the conversion of dollars obtained by foreign central banks as a result of British repayments of credits. *But the U.S. payments' situation in the last quarter of 1961 is expected to worsen, as exports tend to dip and imports to rise during a business recovery.*

If such an event coincides with other political or economic setbacks, there could be new troubles for the dollar. However, the recent cut in the British bank rate from 7% to 6½% will discourage the movement of short term funds to London from the U.S., as exchange hedging costs all but cancel out any potential profit. More international financial cooperation—although on a begrudging basis by some nations—is and will be a factor in the dollar's favor, and the recent IMF meeting, although disappointing, will result in additional funds to be made available in case new dollar troubles erupt.

The Fed will be keeping a close watch on such developments, which will be a crucial consideration in determining monetary policy. The latter, however, cannot be expected to be effective and workable, without disrupting the international flow of funds, if not accompanied by necessary fiscal and other measures—some of which might very well be new innovations. END

For Profit And Income

(Continued from page 143)

but have since had a good recovery to within fairly moderate distance of previous highs. The hurricane season is about over, and loss claims from Clara, mainly in Texas, are expected to be well under those from 1960's Hurricane Donna. Despite some exceptions, small underwriting profits will still be the general rule for 1961, thus representing extension of basic improvement. Investment income — predominant factor in total earnings and generally twice or more times dividends — is at new peaks. Recommended here earlier, Aetna (Fire) Insurance, Continental Insurance and Reliance Insurance have further potentias. END

Answers to Inquiries . . .

(Continued from page 152)

of the company stated that earnings, for the last half of this year, are now expected to exceed the final six months of 1960. Thus, earnings for the year 1961 are projected at more than $4.25 per share.

The indicated annual dividend rate is $3.30 per share, represented by quarterly dividends of 62.5 cents and an 80 cent extra, declared payable December 5 to stockholders of record on November 1. On November 16, stockhoders will vote on a proposed 3 for 1 stock split-up. The company has announced that it intends to place the new stock on an annual dividend of $1.10 per share.

From a low of 59 last year, the stock has advanced to a new high recently of 144½, and is currently selling at about 137. At the latter price, the stock is selling at more than 30 times estimated earnings for the year 1961 and yields less than 2.5%. Notwithstanding the strong position of the company, its prospects depend on continued consumer acceptance of its products in competitive markets. The business of the company cannot be viewed as entirely without risk. At the current price, the stock is selling at a relatively high multiple of earning power, thus discounting its prospects some time into the future, and the yield on the annual dividend is relatively low. Further, as indicated in your letter, the stock has more than doubled in price since its low of last year and, no matter how favorable the outlook may be, this must be viewed as a very rapid rise in price. Finally, you stated in your letter that your holding of this issue is large, at least in relation to your resources. Therefore, all things considered, we would not hesitate to advise that you sell at least one-half of your holding, thus reducing the element of risk in an overlarge position and taking a substantial profit. This step would still leave you with good representation in this issue, which could be retained for the longer term. END

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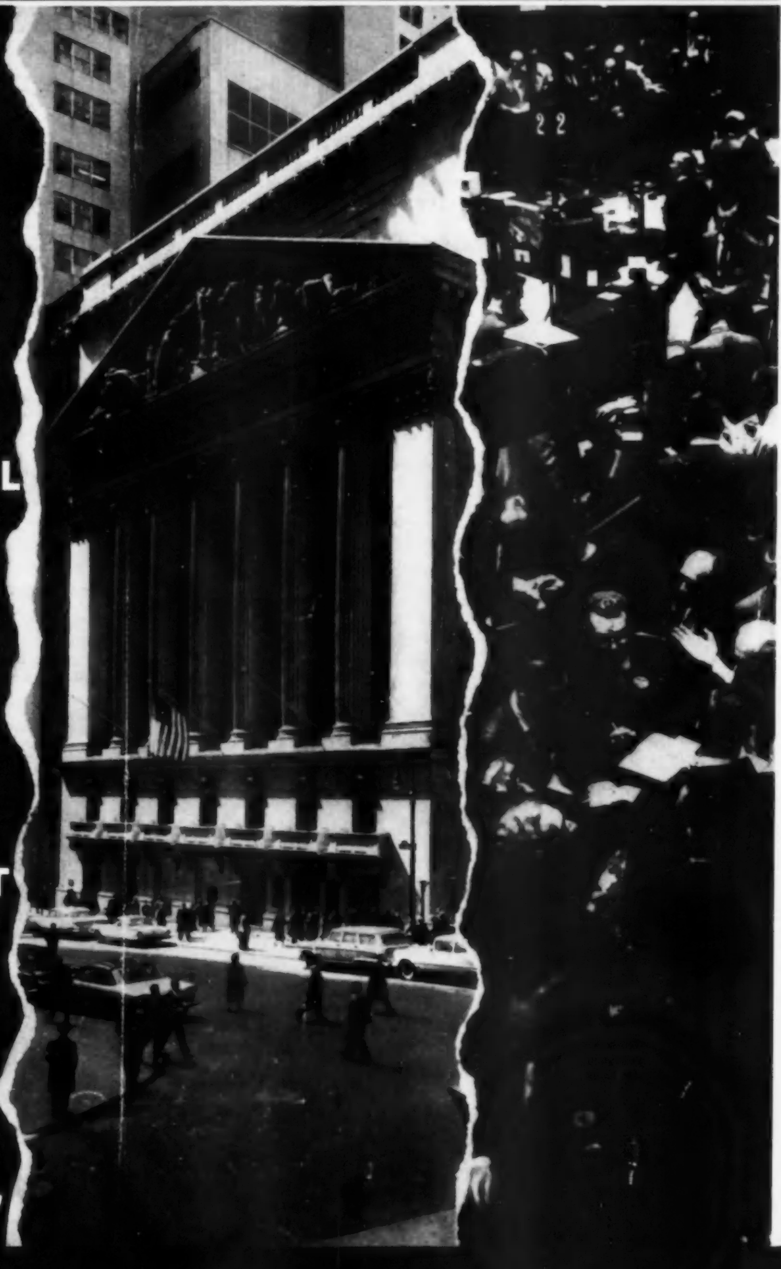

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BLACK AFRICA AND AMERICAN FINANCING
By SANFORD GRIFFITH

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

VOLUME 109 NO. 4

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Contents

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Our cover photos depict the sedate exterior of the New York Stock Exchange and the hectic activity on the trading floor.

Single copies on newsstands in U. S. and Canada: 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

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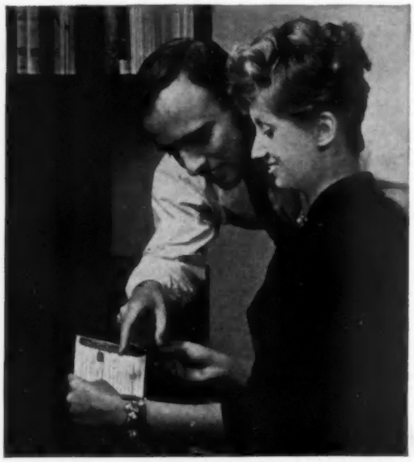

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THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*

The Trend of Events

CRAZY LIKE A FOX . . . Mr. Khrushchev is behaving like a madman, and giving a very good performance. But this simulated lunacy is merely a pose designed to mask his true purpose, which is to divide the West, and unbalance the striking power of the United States by destroying NATO and our bases in the various countries. And his refusal to halt the high megaton nuclear explosions is basic to this plan.

The opening gun in his all-out campaign was fired at the time of the Summit Meeting in Paris, where he violently attacked President Eisenhower in an attempt to build up the U-2 Spy Incident beyond all proportions, for Russia has been notoriously guilty of such practices throughout her existence.

So far, he has failed in his efforts to break up the Western alliances and, although he succeeded in arousing cries of "throw the Yankee bases out" at various times, his success did not go far enough to accomplish his purpose. And NATO has continued to be a-bone-in-his-throat which he cannot dislodge.

Now, in frustration, he is counting on the fall-out from his nuclear explosions to arouse the people in the various countries to such a point of fear that they will demand their governments cancel defense agreements with the United States—dismantle the bases—and assume a neutral position in the East-West conflict.

This was clearly shown to be his purpose when, in response to the protest from Premier Hayata Ikeda on the life and death danger of atomic fall-out over Japan, he said that the real threat to the Japanese people was the alliance with the United States and the maintenance of American bases, which he decared were constructed for use against the Soviet Union, Communist China and North Korea, indicating that Russia is actually in an all-out war with the United States now—a war based on a strategy of terror designed to give her what she wants—"or else—the "or else" being at the expense of the lives of the men, women and children of Japan and the other countries that stand in her way.

This may be a revolutionary departure in warfare, with air pollution by stron-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

tium 90 a new weapon more frightful than conventional ones, because its immediate impact as well as its effect on future generations are not yet known.

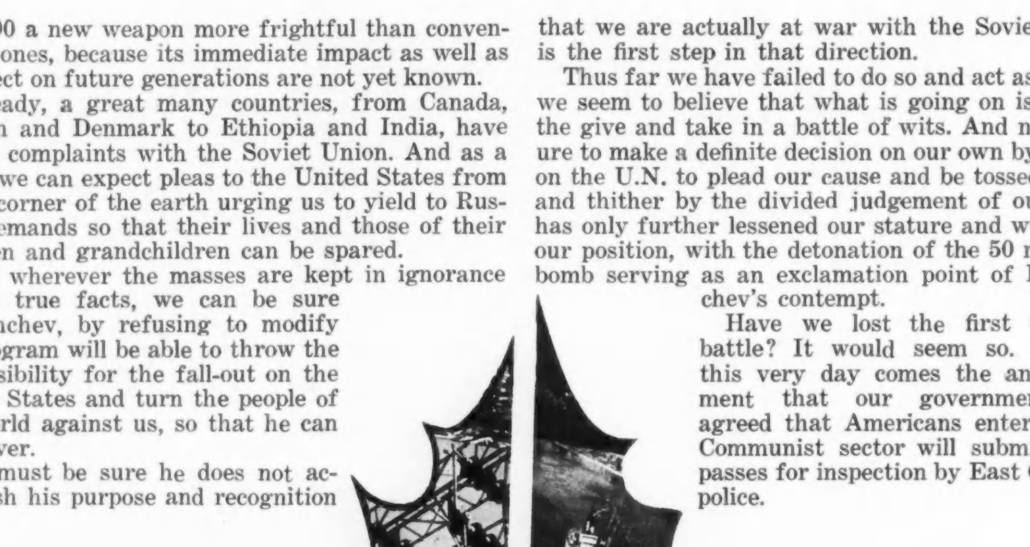
Already, a great many countries, from Canada, Britain and Denmark to Ethiopia and India, have lodged complaints with the Soviet Union. And as a result we can expect pleas to the United States from every corner of the earth urging us to yield to Russian demands so that their lives and those of their children and grandchildren can be spared.

And wherever the masses are kept in ignorance of the true facts, we can be sure Khrushchev, by refusing to modify his program will be able to throw the responsibility for the fall-out on the United States and turn the people of the world against us, so that he can take over.

We must be sure he does not accomplish his purpose and recognition that we are actually at war with the Soviet Union is the first step in that direction.

Thus far we have failed to do so and act as though we seem to believe that what is going on is merely the give and take in a battle of wits. And now failure to make a definite decision on our own by calling on the U.N. to plead our cause and be tossed hither and thither by the divided judgement of our allies has only further lessened our stature and weakened our position, with the detonation of the 50 megaton bomb serving as an exclamation point of Khrushchev's contempt.

Have we lost the first decisive battle? It would seem so. For on this very day comes the announcement that our government has agreed that Americans entering the Communist sector will submit their passes for inspection by East German police. END



SANCTITY OF OIL AND MINERAL LAND CONTRACTS ENDANGERED IN SASKATCHEWAN

By W. E. GREENING

• According to a story in the Financial Post of Toronto for October 28th, 1961, the Government of the Western Canadian province of Saskatchewan has just passed a bill which affects adversely the position of many of the oil and gas exploration and leasehold companies in that region of Canada.

It provides for the forced renegotiation of contracts which farmers and other residents of that province owning oil lands made with these companies about ten years ago when the oil and gas

prospecting boom in Saskatchewan was in its first beginnings.

This bill reduces the terms of these leases from ninety-nine to ten years and also increases the acreage fee which is to be paid by the oil companies to lease companies and farmers when the oil is not being produced, from twenty-five to fifty cents an acre.

► This Bill 56, as it is called in Saskatchewan, has an interesting history. It dates back to the year 1959, when many of the local farmers there, feeling that they were not getting a satisfactory enough deal in this matter of royalties from the oil and gas companies, put strong pressure on the Provincial Legislature to set up a Provincial Mineral Rights Renegotiation Board, which was designed to force the oil companies to renegotiate many of these contracts, most of which had been made several years before.

► About 2,530 of these contracts have come before this Board to date. In some cases compromises were made between the companies and the farmers, but certain of the companies, including the Canadian Williston Company which holds leases on 700,000 acres of oil lands in the southern region of the province, refused to accept the terms set by the Board.

Therefore, in April of the present year, the present Socialist Co-operative Commonwealth Federation Administration in Saskatchewan put a bill through the Legislature to force them to do so.

► Under the Canadian constitutional set up, when a bill of this type passes a Provincial Legislature, it then goes to the Lieutenant-Governor of the province for his assent. This is usually a purely formal proceeding, since the Lieutenant-Governor, like the Governor-General of Canada in Ottawa, has purely ornamental functions and rarely, if ever, interferes in legislative proceedings.

However, in this case, to the vast surprise of many observers, the Lieutenant-Governor of Saskatchewan refused to approve this bill on the grounds that it was beyond the legislative powers of the Saskatchewan Government and not in the public interest, and referred it to John Deifenbaker, the Prime Minister of Canada, and the Federal Cabinet in Ottawa for consideration.

It is many years since an incident of this type has happened in Canada. Mr. Deifenbaker then decided that the bill was constitutional and had an Order-in-Council passed by the Federal Cabinet ratifying the action of the Saskatchewan Government in this matter.

Political Aspects of Mr. Deifenbaker's Decision

► Now, one must not jump at too hasty conclusions regarding the motivation of Mr. Deifenbaker, and infer that he thus revealed himself to be the enemy of private enterprise and the sanctity of contracts. Other political considerations came into play here which had nothing to do with the rights or wrongs of the case of the oil companies. Direct interference by the Federal Government in Canada in the legislative actions of the provinces there, is no more popular with the electorate there than is an infringement of states rights by the Federal Government in the United States. And there is also the fact that Saskatchewan is Mr. Deifenbaker's home province and that he is strongly sensitive to electoral opinion there.

► **During the session of the Saskatchewan Government which is now in progress, the Co-operative Commonwealth Federation Administration again passed this bill and proposes to apply it immediately, against the recalcitrant oil companies.**

There are reports that the Canadian Williston Company intends to continue its fight against this measure and that it may take the oil companies case to the Canadian Courts where it might be fought right through to the Supreme Courts of Canada in Ottawa—the highest Canadian legislative tribunal.

Sanctity of Contracts at Stake

► The Regina Leader Post, one of the most influential newspapers in this region of Canada, which is published in the capital of Saskatchewan, made some significant remarks about this bill in an editorial on October 19th 1961.

It attacked it as a very arbitrary piece of legislation—dangerous to the rights of private property. It remarked that if the oil companies began a legal fight against the Act and that the Supreme Courts of Canada approved it on the grounds that it was within the constitutional spheres of the Saskatchewan Government, that it might become necessary to make changes in the Canadian constitutional set up, so that the rights of property and the sanctity of contracts would receive more effective legal protection.

The present Co-operative Commonwealth Federation has been in office in Saskatchewan ever since 1944 and, in spite of its socialist principles, when the gas and oil prospecting boom began there around the year 1949, it did not try to hinder unduly the prospecting plans and activities of the large American and European-controlled gas and oil companies. This bill is the first sign of a change of attitude on the part of this Administration towards this question. During the past two or three years, the tempo of oil and gas prospecting in the province has notably slackened as compared with similar activity in the neighbouring province of Alberta, because of marketing difficulties and the failure to locate large new fields. If the Saskatchewan Government persists in acting in this manner, it is not likely that any large amount of new outside capital will be attracted to oil exploration in the province in the near future.

Can Earnings Support The Market?

With behavior of individual stocks highly mixed, over-all market movement is still restricted within a broad trading range. On average, the third-quarter profit reports show only a small year-to-year gain, despite the high level of business activity. There has been some lessening of confidence in the business outlook for the rest of the year and into 1962. Allowing also for serious foreign uncertainties, a conservative investment policy remains advisable at this time.

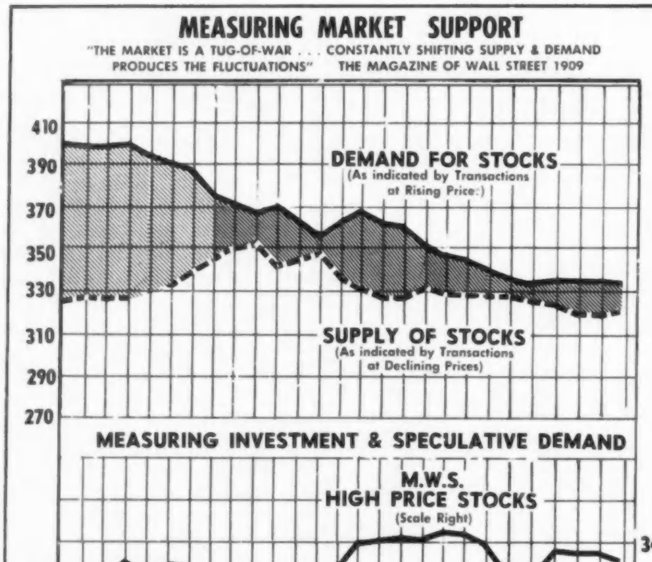
By A. T. MILLER

STRONG demand for stocks at present is confined to a minority of issues mainly in sections of the list with appeal for conservative investment, including utilities, several of the food groups, most of the retail issues, some tobaccos and the bank and insurance stocks. Most of the former "glamour" stocks are on the skids. Relatively few cyclical-type issues are performing well.

The speculative fever, which approached the stage of delirium last Spring, has receded further. One reason is no doubt the continuing "war of nerves" over Berlin. Another is that many people, including a number of industrial economists, now question whether there is as much of a business boom ahead as had been generally expected during the initial fast phase of revival from the recession low.

But there is another reason also—perhaps even the most significant one—for the more sober market mood. It is that most people reaching for a fast buck have either had their fingers burned in recent months or at best have found capital gains much harder to come by. In short, the market lacks a public vote of speculative confidence.

The industrial average gave up nearly 7 points last week, closing about 28 points below the early-September high and less than 7 points above the September 25 minor-reaction low. Following their recent unusually sharp spurt, the rails have "reverted to form", drifting down steadily from the October 11 rally high (which was a new high for this year) to nearly a 5-point lower level by the end of last week. The utility average eased slightly but stands only a fraction under its October 20 post-war high.



There has been moderate deterioration in most of the technical indicators. Declines in individual stocks last week exceeded advances by a wider, even though not great margin than in several weeks. New highs continued to exceed new lows, but by the smallest ratio in some time, with the score 106 to 91 last week, against 150 to 41 three weeks earlier. As shown by our Market Support Measures, demand has eased slightly, supply has risen slightly, leaving a favorable spread but a fairly narrow one.

A Look At Earnings

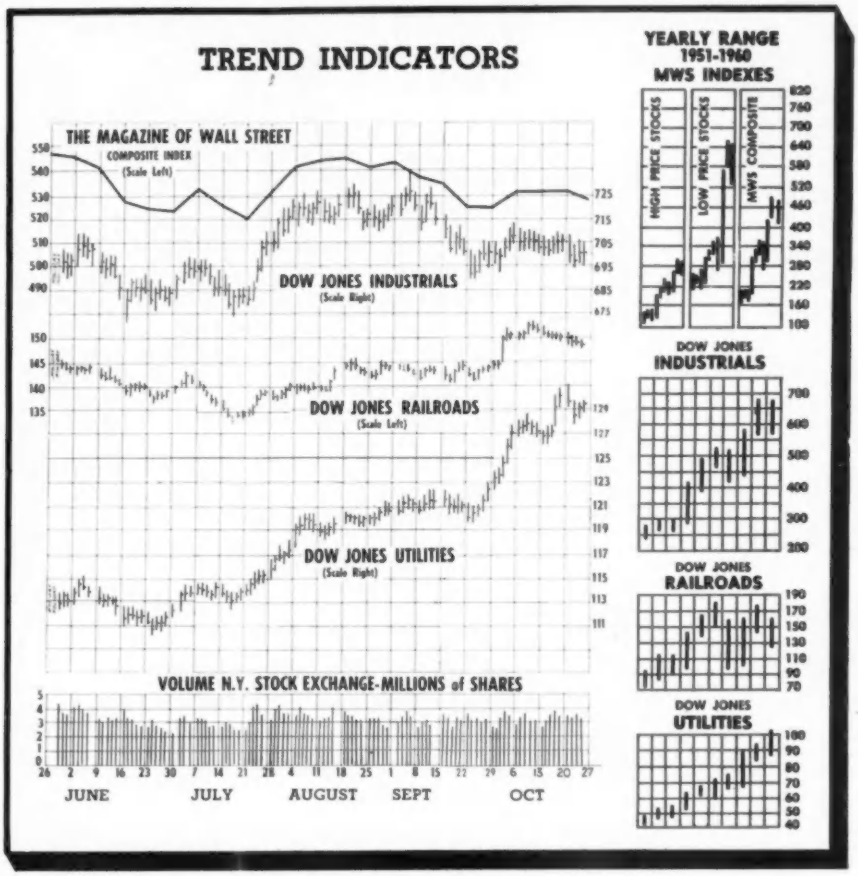
There are more third-quarter profit reports to come than have been released up to this writing. The final reckoning probably will show a fair-to-sizable year-to-year gain in average net income, since a good gain by one large company will outweigh unimpressive comparisons for a dozen or score of smaller concerns.

But it is *per-share profit comparisons* that are significant for investors. On this basis, the writer has examined reports of 175 industrial companies, excluding both a number of small concerns and deficit situations in order to arrive

at a representative sample.

The 175 companies had average third-quarter earnings of approximately 70 cents a share, against a little over 65 cents a year ago, a gain of less than 7.7%. This is unimpressive, considering the year-to-year gains in the recent quarter of 5% in industrial activity (Reserve Board index) and 4.5% in gross national product. Moreover, in 87 instances, or about half of the 175, third-quarter per-share earnings were either lower than a year ago or insignificantly changed.

This means that margins were still generally under pressure in the recent quarter as a result of higher costs — especially wages — intense competition and restricted selling prices. It may also mean that prevailing predictions of "excellent" corporate profits by the second quarter of 1962 are over-optimistic.



Brokers interested in promoting demand for common stocks still glibly talk of long-term growth in corporate profits in an expanding economy. There is praise for the Administration's promise of some general liberalization of depreciation allowances to encourage increased outlays for new plant and equipment in order to compete more effectively in domestic and foreign markets.

The fact is that total profits have lagged during a decade of unprecedented expansion in economic activity. They were about the same in 1960, under mild recession, as they were in 1950—with gross national product up about 77% for the decade, and industrial output up about 35%. In the best year (1959) total profits were up less than 4% from 1950. Over the ten years through 1960, business outlays for new plant and equipment totalled about $307 billion, and expenditures for producers' durable equipment $241 billion.

What's Ahead

What is going to change this pattern of reduced profitability? Are the monopoly labor unions going to be less rapacious in kiting wages and costs? Of course not—regardless of Kennedy's "preaching" of moderation, while the legalized monopoly powers remain intact. Is competition from the thriving European common market, from Japan and from Russian dumping as an instrument of Red policy to become less formidable? Of course the answer is no. Is there any chance of a sellers' market in the U. S.? Of course not.

What About The Dow?

There is hopeful talk that earnings as applied to the Dow industrial average might reach or exceed a $40 annual "per share" rate by the second quarter of 1962. We doubt it—and, if they should attain such a level there is little indication that it would hold for long. In the mildest of the post-war recessions, the average was at a $22.80 annual rate in the first quarter of 1961, which compares unfavorably with the recession-low quarters of 1958 and 1954.

It would take a 40% rise to reach a $32 annual rate, 60% to a $36 rate, over 75% to a $40 rate. A temporary rate of $44.04 was seen in the 1959 second quarter on buying in advance of the steel strike, but it fell sharply thereafter and has not since been approached. Probably 1954-1955 revival experience, with a 43% 12-month gain to the 1955 second quarter, is worth keeping in mind for reference. Were this history repeated, earnings on the Dow would approach a $33 rate in the 1962 second quarter, and level out thereafter to the start of the next recession. This hypothetical level was exceeded on a full-year basis in 1959, 1957, 1956 and 1955. The difference now is that the market is much higher.

The market may go moderately higher on a year-end rally and perhaps in early 1962. But there could be real trouble ahead and it is not too soon to start thinking about it.—**Monday, October 30.**

JUSTICE DEPARTMENT THROTTLING OUR ECONOMIC GROWTH?

— And at this crucial time in our history

By ROBERT B. SHAW

NOTE: ***In addition to its own trust-busting program, the Justice Department is now seeking to set aside rulings by accredited government agencies authorized to make decisions on mergers, by classifying them as monopolistic under antitrust laws. This, although authorization has already been given by the designated agencies, and even in those cases where the mergers are already functioning.***
What is the reasoning behind these attacks, especially since the need today is for big entities able to carry on our affairs, and indeed calls for uniting small units to strengthen decision-making powers in our activities both at home and abroad? **EDITOR**

ATTORNEY General Bobby Kennedy recently announced proudly that in the fiscal year ended last June 30 the Antitrust Division of the Department of Justice had won a record volume of fines. In actual amount these came to $3,058,000 arising from 35 criminal prosecutions, as compared with $1,088,000 in fiscal 1960 and $914,000 in 1959. Nearly two thirds of the 1961 awards derived from the widely heralded price-fixing case against the electrical equipment manufacturers. This accomplishment meant that the Antitrust Division actually earned 60% of its operating costs.

Paying its own way is certainly an unusual and praise-worthy act for any government agency. Still, the administration of justice has broader objectives either than covering its expenses or satisfaction in a record number of convictions. Many signs suggest, in fact, that an overzealous attitude by the Antitrust Division is actually harming the economy. Let's pause for a brief examination of current antitrust activities, their apparent objectives and some of their results.

Opposition To Monopoly Inherent In Our System

The basic prohibition against monopolistic practices in American law was the Sherman Antitrust Act of 1890. This did not, however, establish any new principle but rather represented a codification of ideas long embodied in American (and English) common law; a number of individual states had also had earlier antitrust laws of their own. Although subsequently reinforced by the Clayton Act (1914) the antitrust laws remain extremely nebulous. For example, the Sherman Act makes it illegal to "attempt to monopolize" any market. **But it is the natural endeavor of every company constantly to attempt to increase its share of the market; the abandonment of this effort would be virtually equivalent to giving up progress. Is this practice of normal competitive spirit to be condemned as the initial step in winning a monopoly, and therefore a crime?**

But while considerable latitude must necessarily exist in the *interpretation* of the antitrust laws, there can be no doubt that these do represent the spirit of the American free enterprise system from the earliest days. Although a theoretical defense of the European cartel system may occasionally be voiced, no responsible person in this country defends monopoly.

Federal Regulatory Agencies

Agency	Date Founded	Responsibility
Interstate Commerce Commission	1887	Railroads, Common Carrier trucks and large lines.
Federal Trade Commission	1914	Business practices; advertising, labeling, price discriminations, etc.
Federal Communications Comm.	1934	Telephone and telegraph, Cos., radio and TV networks; private communications of other companies.
Federal Power Commission	1920	Gas and electric interstate utilities.
Securities and Exchange Comm.	1934	Fund raising, financial activities of all companies.
Civil Aeronautics Board	1938	Air line rates, services, schedules, mergers, etc.
Federal Reserve Board	1960*	State banks belonging FR system.
Comptroller of the Currency	1960*	National banks.

*—Date of inception of responsibility for merger approval.

Bobby Kennedy Trying to Win TR's Crown?

The original "trust buster" was Theodore Roosevelt, President of the United States from 1901 to 1909. And it is hardly to be doubted that a vigorous program of trust busting was necessary in that era of rugged individualism.

But today conditions are entirely different. Even the smallest members of any industry are "big" by turn-of-the-century standards, intense competition exists among alternative services as well as like products, and our present market is world-wide rather than merely national. Unfortunately, just when the need for a reappraisal of antitrust policies is indicated, a partisan attorney general seems to be imbued with the desire to win for himself a reputation as the country's greatest trust buster.

Recent Anti-Trust Actions With Which We Are Familiar

A list of recent suits instituted by the Antitrust Division was given with an article emphasizing the necessity of modernizing these laws in our August 26 issue, and need not be repeated. So numerous are the corporate defendants in antitrust cases today that it almost seems that a company cannot be respectable unless it is being prosecuted by the Department of Justice. Besides the cases actually instituted, the Department has also hinted vaguely at still other prosecutions; it has suggested, for example, that American Telephone Company, one of the most thoroughly regulated corporations on our business scene, may be compelled to give up its overseas communications networks.

Altogether, about 150 cases are now being prosecuted by the Department's Antitrust Division.

Justice Department Clashes With Other Agencies

Now, business certainly would have no reason to complain against close surveillance by the government. Modern industrial society has become so complex that an arbiter of law and ethics is often necessary, even where no bad faith is involved.

But it is entirely erroneous to imagine that no other watchdogs of corporate conduct than the Department of Justice are patrolling the business scene. On the contrary, seven powerful agencies are specifically charged with regulating business activity in their respective fields; these agencies are the *Interstate Commerce Commission*, the *Federal Trade Commission*, the *Federal Communications Commission*, the *Federal Power Commission*, the *Securities and Exchange Commission*, the *Civil Aeronautics Board* and the *National Labor Relations Board*.

Other than the I.C.C. (founded in 1887), all of these agencies are "new" and were created specifically to deal with modern business problems. Collectively they are so powerful that they are often referred to as a fourth major branch of the federal government. "Without the sanction of these agencies no railroad, no airline, no interstate trucker, no pipeline or barge line may introduce a new service, discontinue an old service, or set a rate; no radio or television station may operate; no gas producer may market his fuel or figure its price in interstate commerce; no interstate public utility may build a power plant; no sizable firm may market a new security, or safely plan a merger."

Additional regulatory authority was also assigned last year to the Federal Reserve Board to rule upon mergers of state banks belonging to the Federal Reserve System and to the Comptroller of the Currency for the national banks.

These commissions are headed by experts appointed by the President and staffed by large groups of specialists. Their major purpose is to protect the public at large. The unbiased observer might imagine that the supervision of these agencies would be adequate, their judgment more reliable than that of legal sleuths with little business experience. "Not so," retorts the Department of Justice. "We are better qualified to protect the public interest than

these specialized agencies." And it has clashed with them in a number of instances—a series of family quarrels.

El Paso Natural Gas Case

One such instance is the divergence between the Federal Power Commission and the Justice Department over acquisition by El Paso Natural Gas of Pacific Northwest Pipe Line, in 1959. El Paso, a major supplier of natural gas in California, sought the consent of the FPC in 1957 to acquire Pacific Northwest, as part of a program to supplement its original Texas and New Mexico reserves with Canadian gas. **And pursuant to an order of public convenience and necessity issued by the FPC the merger was consummated, on the last day of 1959.**

► Before the union was officially carried out, El Paso had already owned 99% of Pacific Northwest's common stock. In 1957 the Department of Justice brought suit under the Clayton Act seeking to dissolve this association, on the grounds that its effect was "substantially to lessen competition or tend to create a monopoly", and it has declined to withdraw this case even after FPC endorsement of complete merger.

• Now it is true that El Paso until recently (when Pacific Gas & Electric completed an affiliated pipe line reaching Canadian reserves) did hold a monopoly in the supply of California distributors—but the answer to this is that it is a regulated utility. The FPC deliberately restricts competition to avoid wasteful duplication; in return those companies privileged to hold franchises are subject to rigid rate regulation.

Strangely enough, the Clayton Act, upon which Justice based its opposition to El Paso's original acquisition of 99% of Pacific Northwest's stock, states: "Nothing contained in this section shall apply to transactions duly consummated pursuant to authority given by the Federal Power Commission . . ." What could be more specific?

Justice Department Intervenes in Railroad Mergers

Of all industries the railroads are certainly the most thoroughly regulated—by the Interstate Commerce Commission, the oldest of the independent agencies. The I.C.C.'s authority extends to rates, services, abandonments, accounting, the issuance of securities—and mergers, and it is no exaggeration to say that the railroads have almost been regulated to death.

In the light of this background it is ludicrous to find the Justice Department intervening to block several mergers, while the I.C.C. is still engaged in weighing the issues involved. Railroad mergers are now almost universally recognized as, not merely a desirable, but an essential process if the economies of rail transportation are to be preserved. As a matter of fact the federal government itself, under the Transportation Act of 1920, proposed a vast program of railroad unification.

Among the present important merger proposals is that of the Chesapeake & Ohio with the Baltimore & Ohio. Obviously the weak B. & O. requires union with some stronger carrier in order to regain its fiscal health. The Justice Department has, however, moved to dismiss applications by both rivals, the New York Central and C. & O., to control the B. & O. If accomplished, this step would cancel one of the best hopes for railroad progress in the East.

Again on the Pacific coast, the Justice Department is seeking rejection of the application of both the Southern Pacific and Atchison Roads to acquire the short but strategic Western Pacific. It is possible that some element of monopoly could be construed here, as the Western Pacific closely parallels the Overland Route of the S. P., but this view forgets—as the government regulators have been prone to do all along—that the railroad's most intense competition is now with other agencies of transportation, no longer with each other. In both of these cases, it is true, the Antitrust Division found a technical excuse for intervention, viz. *the claim that in the absence of approval by the I. C. C. the acquisition of partial control by purchase of stock was illegal, but this position is far-fetched and contrary to practices that have been carried on without objection for years.*

Bank Mergers Approved — and Disapproved — By Government

Most recently in the limelight has been the conflict between the Justice Department on the one hand and the Treasury and Federal Reserve Board on the other arising out of the merger of several large banks.

► As a matter of fact, it was generally assumed for many years that the Sherman and Clayton Acts did not apply to banks, which were not regarded as within a strict definition of "commerce". In its present empire-building guise, however, the Justice Department has sought to broaden this definition and extend its control over banking institutions.

This question was supposedly settled only last year, when bank mergers were already an issue, by a new law which provided that mergers of national banks must be approved by the Comptroller of the Currency and those of Federal Reserve member state banks by the Federal Reserve Board. The respective financial authorities were directed to consult the Justice Department on all applications, but the final decision would be the responsibility of the former. *Nevertheless, the Antitrust Division has continued to insist that approval of merger under the 1960 law does not exempt the banks from the Sherman and Clayton Acts.*

► In a kind of gentlemen's agreement, Bobby Kennedy and Treasury Secretary Dillon agreed earlier this year that the Treasury (Comptroller of the Currency) would not approve any mergers opposed by Justice until this question has been clarified, but the agreement was violated in August when Comptroller Roy Gidney sanctioned the merger of the Continental Illinois and City National Banks, in Chicago. Subsequently, an injunction to block the merger was rejected in the Federal District Court in Chicago and the union of the two banks has been consummated. It is not clear at the moment whether the Antitrust Division will attempt to unscramble it.

► A similar episode occurred in New York City. After the Federal Reserve Board, on September 6, authorized the merger of the Manufacturers Trust and Hanover Bank, the Justice Department filed suit to block its accomplishment. Admittedly the two banks raced to complete the formalities before Kennedy's legal beagles could appear on the scene, and the contest was so close that it turned in the end on the banks' successful *(Please turn to page 205)*

PART ONE

WHAT THIRD QUARTER EARNINGS REPORTS REVEAL

—Looking to 1962

By WARD GATES

THE picture of third quarter earnings which is emerging from the first important outpouring of corporate reports is fuzzier than most analysts had anticipated. Beyond a doubt there is overall improvement when earnings are compared to the third quarter of last year, but that is not as significant as it seems on the surface.

A year ago our basic industries were in a full fledged recession and most economic indicators were still pointing downward. During the present year's third period, on the contrary, the economy was in a cyclical upswing, with both the statistical indicators and businessmen's aspirations pointed upward. Hence a better earnings showing for companies in general was a foregone conclusion.

Chemicals Running Hard To Stand Still

What is now disturbing investors is the disappointing quarter by quarter comparisons for many key companies and industries. The chemicals, for example, are an enigma. A year ago, when most basic industries were having serious troubles, chemical earnings held up relatively well. This year, despite broad scale if unexciting industrial recovery, many major chemical companies not only failed to match last year's earnings, but also fell behind the second quarter of 1961.

Allied Chemical, a major basic chemical producer with wide participation in many basic areas of the economy, was particularly disappointing in view of the sharp recovery its earnings had scored in the second quarter. Sales jumped pleasantly three months ago, and earnings at 81¢ a share were almost double the first quarter results. In the third quarter, however, sales fell sharply, and earnings dropped to 52¢ a share, a figure far below the previous quarter and slightly behind the third quarter of last year.

Allied's misfortunes reflect the hesitancy in steel output that has characterized the steel industry throughout most of the recovery. Steel demand has been fair but unexciting; hence the steel makers have been cautious about taking on raw material inventories, when they know that adequate capacity exists within the chemical industry to provide their needs on a moment's notice.

In addition many of Allied's products are byproducts of the steel-making process. Therefore, a

relatively low output of steel cuts its supply of many important chemicals.

But even chemical companies more remotely connected with the steel industry had troubles in the third quarter. **du Pont** barely managed to top the $1.96 per share it earned in last year's third period, but both sales and earnings fell from the second quarter of this year. In all probability the earlier model changeover in the auto industry is largely responsible, since the car makers are big customers for du Pont paints. Nevertheless, at this stage of a cyclical recovery, the earnings picture should have been better.

What is even more disturbing for the chemicals is that profit margins have not expanded the way they usually do in the early phases of a recovery. **Hercules Powder,** which has a fine record of earnings and is well situated to benefit from both industrial and defense demand, illustrates the point. A year ago the company earned 85¢ a share in the third quarter on sales of $89 million. This year sales of $92 million produced only 82¢ per share in earnings. Moreover, in the second quarter the company earned 84¢, but sales were $99.5 million. Profit margins have been slipping all year despite the pickup in business.

Eastman Kodak, on the other hand, was able to better its profit margins in the most recent quarter, after a period of slipping margins. In the most recent quarter, sales advanced to $234 million from $229 million a year ago and earnings rose to 88¢ against 84¢. Of perhaps greater significance is the fact that while sales for the first nine months were slightly ahead of a year ago, profits still trailed 1960. The all-important Christmas season is still ahead, of course, but barring a major upswing in consumer buying, Kodak will have difficulty topping 1960 earnings.

Retreat of Building Company Profit Margins

Chemical companies were not the only ones with profit margin problems. **Johns-Manville,** a major producer of building materials, managed to score a record volume of business in the third quarter, with sales rising to $106.7 million from $99.6 million last year. Earnings, however, made no progress whatever, coming only to exactly the same 90¢ per share reported a year ago.

Higher wages and lower prices explain the company's plight to some extent, but by no means entirely. A big factor was probably a miscalculation on management's part concerning the extent of the economic recovery. Johns-Manville is not alone in this situation. Six months ago industry economists were virtually unanimous in their insistence that the latter half of 1961 would be one of sharp business recovery. Inventory and selling plans were laid accordingly. The recovery has materialized, but not nearly so spiritedly as expected. The result has been consistent pressure on prices and higher inventory accumulations than can be justified by the actual level of business.

Minneapolis-Honeywell, which is also tied closely to the building market, probably suffered from the same factors. But there were other profit margin depressants as well. Until a year or so ago, Honeywell had one of the most consistent rising profit margin records of all major companies. The picture has changed, however, since the company initiated its major attempt to break into the computer field.

Revenues continue to rise, especially since some computer lines have been well received, but exceptionally high development costs have been eating deeply into profits. Earnings barely topped the second quarter of this year despite a rise in sales, and were actually 7¢ a share below earnings in the third quarter of last year. The company is gambling on a broad line of computers. Unless the lines are firmly established, lower profit margins will remain the order of the day.

No Rebound Yet in Paper

The pattern that is emerging from spotty third quarter earnings so far available is disconcerting. Companies are doing more business, but those in basic industries are not making bigger profits. This goal is vital, since the currently high level of most stock market averages represents an anticipation of a strong recovery in corporate earning power. So far, however, third quarter profit reports fail to support a high degree of optimism. Rather, they show that industry has not yet overcome the problem of overcapacity and the consequent glut of production that issues forth at the first sign of a business upturn. The pressure on prices, therefore, remains almost as burdensome as ever.

The paper industry offers further corroboration of this picture. **St. Regis Paper** has enjoyed a steady if unsensational upswing in sales for over a year, but profits have been virtually static. A year ago, per share net equalled 39¢; in the first quarter of this year it amounted to 37¢, followed by 36¢ in the second quarter, and now 38¢ in the latest reporting period—certainly a lack-luster performance.

The company's backlog continues to build up, especially for Kraft paper, but price weakness in most important lines has prevented earnings progress. Recently prices were raised for multiwall bags, but it is still far from certain that the line can be held.

Scott Paper, which is tied more closely to the consumer than most paper companies, also suffered some deterioration in profit margins this year. Earnings in the third quarter came to 80¢ a share, a shade above the 79¢ reported a year ago. However, sales were far ahead of the year-earlier period, indicating profit margin troubles. Scott has a strong history of profit margin stability, however, and should be able to recover, especially if year end business is strong.

Steel Profits Exceed Year-Earlier Level But Lack Momentum

The major exception to the poor showing among the basic industries is the steel group. **U.S. Steel** and **Bethlehem,** the two industry leaders, had not released their earnings at the time of this writing but other important producers give indications of what has happened. A year ago, steel operations were near the low point of the recession. **Republic Steel,** third largest in the industry, saw its profits fall away to 47¢ a share, well below its dividend requirement.

Quarterly Income Comparison of Industrial Companies

	3rd Quarter 1961			2nd Quarter 1961			1st Quarter 1961			3rd Quarter 1960		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Allegheny Ludlum Steel	$58.4	4.2%	$.64	$60.8	4.7%	$.74	$54.1	2.6%	$.37	$50.2	1.2%	$.17
Allied Chemical	181.2	5.6	.52	211.3	7.6	.81	168.5	5.6	.47	187.5	5.6	.53
Allis-Chalmers Mfg.	116.7	d1.3	d.18	140.5	2.3	.35	119.6	1.2	.15	127.8	.9	.13
American Cyanamid	146.6	7.5	.52	152.7	7.5	.54	148.1	8.2	.57	136.8	6.2	.40
American Hospital Supply	33.0	5.4	.21	30.2	4.0	.15	27.1	4.1	.14	29.0	5.0	.18
Amer. Rad. & S. S.	124.0	3.8	.41	120.0	2.5	.26	107.2	1.2	.11	127.3	3.0	.32
Beckman Instruments	16.5	5.8	.64	20.1	7.3	.80	17.0	5.4	.67	15.8	5.1	.57
Bell & Howell	29.4	5.7	.44	28.5	2.8	.21	22.8	.4	.02	28.8	5.6	.43
Burroughs Corp.	97.4	2.3	.35	94.3	1.9	.27	90.4	1.5	.21	85.8	1.3	.17
Caterpillar Tractor	205.1	8.0	.60	200.8	7.8	.57	168.1	6.9	.42	185.8	6.6	.45
Celanese Corp. of Amer.	73.3	7.0	.53	71.4	7.8	.52	62.0	5.7	.32	64.5	7.0	.46
Consolidation Coal	54.3	7.7	.46	53.5	6.7	.40	57.8	5.7	.37	55.0	4.9	.30
Container Co. of Amer.	84.5	4.8	.38	83.5	5.6	.43	76.8	5.3	.38	85.4	4.9	.39
Continental Can	346.1	4.4	1.24	293.5	3.4	.81	242.0	2.0	.39	334.2	3.1	.84
Crane Corp.	86.1	2.6	1.55	77.8	1.3	.69	64.8	1.5	.60	75.8	2.7	1.31
Douglas Aircraft	184.3	.6	.33	227.0	.6	.40	204.8	8.3	.45	292.4	d.4	d3.43
Dow Chemical	210.0	8.4	.61	212.7	8.6	.63	182.4	6.6	.42	208.3	9.0	.67
Du Pont	552.0	N. A.	2.11	570.7	17.7	2.15	520.0	16.7	1.85	531.2	17.4	1.96
Eastman Kodak	234.9[1]	14.3	.88[1]	220.4[1]	12.5	.72[1]	193.8[1]	11.2	.56[1]	229.7[1]	14.2	.84[1]
FMC Corp.	110.4	5.3	.82	113.9	7.3	1.17	91.4	4.8	.62	94.3	4.7	.63
Ferro Corp.	15.7	4.0	.75	15.9	4.0	.79	13.8	2.9	.50	14.3	3.0	.53
General Electric	1,063.6	5.4	.65	1,081.8	4.7	.57	992.2	4.2	.48	1,030.5	5.5	.65
General Foods	274.1	6.4	.71	288.5	5.9	.69	399.1	4.7	.76	285.6	5.8	.68
General Portland Cement	16.0	16.3	.49	16.1	17.2	.52	11.7	11.1	.24	16.7	18.7	.49
Gillette Co.	70.3	17.6	1.33	61.5	15.7	1.03	62.1	16.1	1.08	61.2	15.4	1.01
Goodrich (B. F.)	189.3	4.2	.87	197.4	4.7	1.02	172.9	3.3	.63	183.7	3.2	.66
Hercules Powder	92.2	N. A.	.82	99.4	7.7	.84	88.8	6.2	.61	88.8	6.2	.85
Ideal Cement	36.6	13.5	.44	34.8	13.9	.43	21.7	12.3	.23	34.1	12.0	.36
Intern. Business Mach.	433.3	12.0	1.89	422.1	12.3	1.89	389.0	12.5	2.67	345.9	12.2	1.55
Johns-Manville	106.7	7.1	.90	103.1	8.0	.97	69.9	3.0	.25	99.6	7.6	.90
Jones & Laughlin Steel	194.8	5.1	1.24	188.4	4.9	1.13	158.1	1.6	.28	164.2	2.1	.40
Kaiser Alum. & Chemical	105.7	5.1	.27	110.1	6.4	.39	96.2	3.9	.16	99.3	5.9	.31
Liggett & Myers Tob.	133.0	5.3	1.73	133.9	5.4	1.76	120.2	4.4	1.27	141.5	5.1	1.83
Lorillard (P.)	124.3	5.8	1.08	126.5	5.8	1.10	115.0	5.1	.88	122.4	5.6	1.03
Minneapolis-Honeywell Reg.	117.1	5.1	.84	113.5	5.2	.83	103.1	4.1	.61	107.0	5.9	.91
Monsanto Chemical	229.3	6.7	.56	246.3	7.7	.70	219.3	7.7	.57	218.3	7.0	.57
New York Air Brake	11.7	4.3	.68	9.3	3.5	.44	9.3	2.2	.28	9.4	5.0	.64
Parke, Davis & Co.	46.0	9.8	.31	42.6	8.6	.25	47.5	12.1	.39	52.2	14.1	.50
Polaroid Co.	25.5	8.7	.57	20.0	4.7	.24	14.0	1.7	.06	19.1	8.4	.41
Rayonier	33.8	5.8	.34	33.9	6.4	.37	30.7	5.0	.27	30.6	6.8	.37
Raytheon Co.	126.9	1.4	.45	142.0	1.1	.40	138.1	.9	.33	125.2	1.5	.48
Republic Steel	264.6	4.8	.81	252.1	6.1	.98	190.7	3.0	.37	217.5	3.3	.47
Reynolds (R. J.) Tob.	398.4	8.0	.79	388.6	7.7	.74	356.3	7.5	.66	372.9	7.2	.67
Rohm & Haas	53.2	8.8	4.02	58.7	9.7	4.99	51.8	7.7	3.46	52.5	8.9	4.07
St. Regis Paper	141.5	3.1	.38	141.8	3.0	.36	131.4	3.2	.37	137.3	3.3	.39
Schering Corp.	23.0	15.4	.86	20.7	9.2	.45	18.8	9.2	.41	22.5	14.1	.77
Scott Paper	83.8	8.1	.80	83.6	8.6	.87	79.4	8.4	.81	76.6	8.3	.79
Simmons Co.	34.2	3.9	1.13	30.3	2.7	.72	27.8	.6	.16	33.1	2.8	.80
Smith Kline & French Lab.	38.2	18.3	.48	40.2	18.4	.51	37.7	17.7	.46	36.2	17.4	.43
Texas Gulf Sulphur	14.9	20.0	.29	16.0	20.0	.33	13.4	20.4	.27	16.0	21.4	.34
Union Bag-Camp Paper	52.6	7.2	.49	55.2	7.8	.56	57.8	9.0	.56	53.1	8.1	.56
Upjohn Co.	43.0	15.7	.48	39.2	11.7	.33	39.4	13.7	.39	42.2	16.4	.49
Worthington Corp.	47.2	2.6	.70	49.0	3.0	.84	41.4	3.2	.77	48.3	3.0	.84
Wrigley (Wm.) Jr. & Co.	26.7	12.8	1.74	27.4	12.3	1.72	24.3	9.1	1.13	27.3	11.4	1.58
Youngstown Sheet & Tube	143.9	3.5	1.47	144.1	5.6	2.34	116.5	2.3	.77	121.6	2.2	.77

d—Deficit. N.A.—Not available. [1]—12 weeks.

This year, however, Republic's profits are at a more respectable level of 81¢ a share. Nine month figures, however, are still behind a year ago, indicating that, despite three consecutive quarters of recovery, full-year earnings may still trail 1960. The comparison is not completely valid, however, since earnings in the first quarter of 1960 were still exceptionally high as an aftermath of the steel strike that halted production for the entire last quarter of 1959.

What is still disturbing, however, is the fact that earnings for Republic fell behind the 98¢ a share reported in the second quarter of this year. The early model changeovers in the auto industry, of course, cut the demand for steel. So did the threat of major auto strikes since the car makers ordered steel with caution in the face of protracted negotiations. Nevertheless, demand from other major steel users was also laggard—or at least far from spirited.

Further evidence comes from the **Youngstown Sheet** figures. Earnings doubled over the third quarter of a year ago, but this year's $1.47 a share compares with $2.34 a share in the second quarter. The sharp drop hardly paints a picture of a booming economy. Both companies have high hopes for the fourth quarter, but from the data available so far, they will not be realized. Steel production has actually declined moderately so far in the final quarter, so that even a sharp upturn in the last month of the year can hardly bring in enough profits to top last year's record.

Better News Among The Consumer Industries

If heavy industry is having its troubles there are others, however, that continue to enjoy prosperity. Companies closely tied to the consumer are again proving their mettle. **Gillette,** whose profit record has been extraordinary in the past few years, continues along the same path. After a slow start in the third quarter, earnings suddenly spurted in the wake of a sharp upturn in demand for razor blades, pens and cosmetics. The pleasant result was earnings of $1.33 per share vs. $1.03 in the second quarter and only $1.01 in the third quarter of last year.

Gillette's policy of merchandising only low priced, everyday items has proved a bonanza. Nine months earnings this year, in fact, topped full-year earnings for 1959 and at $3.43 a share were only 50¢ behind the full-year results for 1960. The price of the stock has probably outrun the earnings, but investors should pay it serious attention if the issue should decline in a general market setback.

Reynolds Tobacco also continues its winning ways with each passing quarter. Cigarette shipments were up again and earnings climbed to 79¢ a share from 67¢ a year ago. In addition, the current figures represent a modest improvement over the 74¢ reported in the second quarter.

Reynolds has grabbed off the lion's share of the new mentholated cigarette market, while remaining among the leaders in conventional brands. Its record of success is long established, and is evidenced by its high price and significantly lower yield among the cigarette companies.

Liggett & Myers, however, still shows evidence of the troubles that have beset it for the last few years. The company's brands have been losing out gradually to others, and profits have consequently felt the pinch. Moreover, the attempt to recapture its position is leading to high promotional costs and lower profit margins.

A year ago Liggett had sales of $141 million and earnings of $1.83 a share. In this year's third quarter sales fell sharply to only $133 million and earnings dropped to $1.73. Sales and earnings were also both below the second quarter. Liggett should cover its dividend but coverage is getting smaller each year, making it necessary for investors to watch developments closely.

Another star performer in the consumer fields which continued to make progress in the third quarter was **General Foods.** Sales actually declined moderately from last year's third period, but better profit margins raised per share net to 71¢ from 68¢. The company is an established blue chip in the food field and demonstrates year after year that it has the products and the know-how to maintain a constantly rising earnings trend.

Caterpillar, Douglas Aircraft, Continental Can

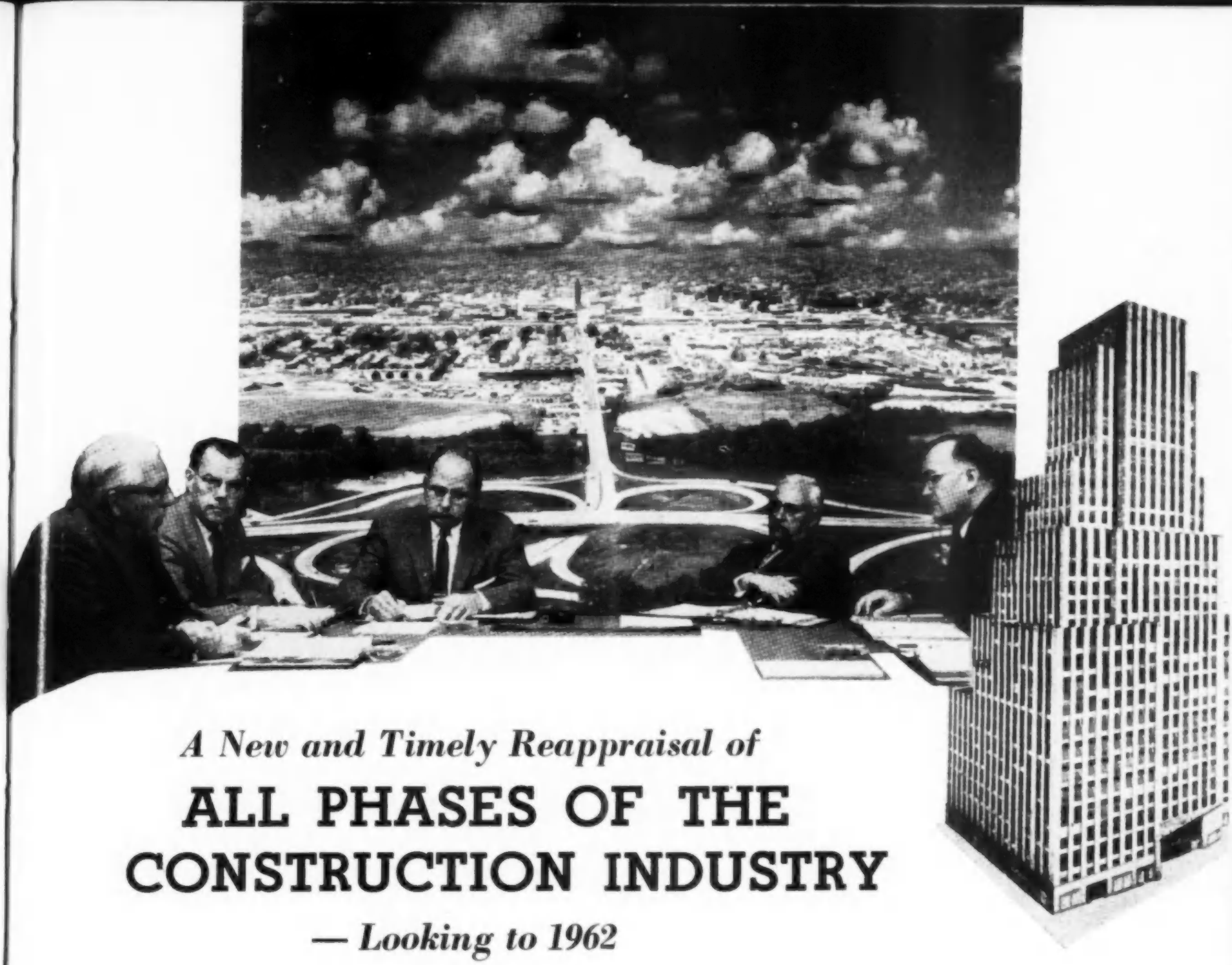
Shareholders did receive favorable reports from several companies that have been exhibiting troubles recently. **Caterpillar Tractor** scored an unexpected resurgence in sales in the third quarter, and at the same time widened its profit margin substantially. Earnings came to 60¢ a share from only 45¢ a year ago. Moreover, despite the slowdown in some segments of the economy during the summer, Caterpillar also managed to better its second quarter results.

The company has been concentrating on cost reduction and the maintenance of the price line. Obviously these measures have been largely successful, as profits expanded sharply as soon as shipments turned upward.

Even more reassuringly, **Douglas Aircraft** this year has finally broken out of the string of deficits it had been reporting to shareholders. Profits were reported in the two opening quarters of the year and again in the most recent period. But although the 33¢ a share earned in the third quarter looks good compared to last year's $3.43 deficit, the figures and the news from the company still leave much to be desired. Third quarter earnings were the lowest for any quarter this year, reflecting a sharp decline in shipments. In addition, the company reported a big drop in its backlog position as a result of the termination of aircraft contracts. The virtual end of the B-70 program will cause additional troubles for Douglas.

On the plus side, most of the development costs of the jet transports have now been written off, so that earnings will no longer be punished as severely as they were over the last two years. Still the chance of a strong earnings uptrend in the near future appears remote.

Continental Can's report made happier reading for shareholders. In the past year or two, operations have been upset by price problems and the need to develop new lines of *(Please turn to page 205)*



A New and Timely Reappraisal of

ALL PHASES OF THE CONSTRUCTION INDUSTRY

— Looking to 1962

By EDWARD A. SPRAGUE

IN 1961, the building business should account for a greater dollar amount of goods and services than in any previous year in our history. This now seems a fairly safe assumption with the current rate of new construction expenditures running well ahead of last year. The Department of Commerce estimates that total 1961 construction activity will be valued at $57.8 billion. Little wonder, then, that construction is known as the nation's largest fabricating industry.

Furthermore, construction has been one of the "growingest" industries in the postwar period. With the single exception of 1960, when a small decline was registered, overall expenditures for new construction have risen each year since the close of hostilities in 1945. The industry has weathered four postwar recessions without stopping for breath. It has taken steel strikes, the Korean War, and housing "scandals" in stride.

Not all building types have shown such consistent gains as the total, naturally, and rising costs have moderated the increases in the physical volume of building (in terms of square footage or price-adjusted dollars). Nevertheless, the industry can "point with pride" to an enviable record of growth and accomplishment over the last 16 years.

Yet there are now, and have been right along, nagging fears about the future of the building business. No matter how prosperous it has been, at any given moment you could find a handful of people asking, "Yes, but can it last?" The fact that it has lasted for 16 years has dampened the pessimism of some, but their places have been taken by others.

The most frequent question asked by the chronic pessimists is: "Aren't we in danger of over-building?" To properly answer that question, we should first examine the reasons for asking it.

Ghost of 1933 Still Haunts Building Industry

The building business was once considered extremely sensitive to every swing in general business activity. It was thought to react more strongly to the gyrations of our national economy than many other industries, even those manufacturing durable goods such as automobiles and appliances.

In addition, economists in the past busied themselves analyzing the so-called "long-wave" cycles in new construction. The most popular of these was the "18-year cycle" whereby construction was supposed to complete, on the average, a full circle of gradual growth, relapse, and new growth every 18 years. Theoretically, the "long-wave" cycle operated

independently of short-run fluctuations in building induced by general business conditions. Economists did admit, of course, that a business "panic" (as recessions were formerly called) could distort the long-run building trend, temporarily retarding the upward phase or speeding the downturn, depending on when the panic occurred. The reverse was held true for periods of business prosperity.

In the prewar historical record a fair amount of evidence could be found to support these views. Cited as the most notorious example was the behavior of the construction activity during the cataclysmic depression of the 1930's. By 1933, expenditures on new construction had fallen steadily and with distressing rapidity to a level 66% under the previous peak year of 1927. It then required eight years to regain the lost ground, and might have taken longer had it not been for the stimulus of rearmament.

Although this well defined cycle ran under 18 years, at the time it seemed to vindicate the "long-wave" theorists. The assumption was that a severe business contraction had coincided with a general downtrend in building. The result was, in fact, extensive unemployment, plunging sales, disappearing profits, and high failure rates in contract construction and the building materials industries.

Because the building business was hit so much harder by the Great Depression than most other industries, the scars have taken longer to heal. Unquestionably, the current fears of "overbuilding" stem, in large part, from the sad experiences of the 1930's. Thus, despite almost constant expansion since World War II (and, according to some observers, because of it), the spectre of a serious collapse in construction activity still looms in the minds of many investors, businessmen, and economists alike.

What is Different Now

There is no gainsaying the *possibility* of a drastic cutback in construction in the near future. But our present economic environment and more particularly the composition of the construction industry itself make such an event rather unlikely.

Much has been written about the role of "automatic stabilizers" and built-in safeguards that have made the general economy less liable to a serious depression. The increasing sophistication in the reporting of economic trends and in the use of monetary and fiscal policies by the Federal government is another factor. This certainly does not mean the business cycle is no longer a problem. But an economic catastrophe on the order of the Great Depression is no longer likely to impinge on the construction industry.

So much for that external threat. But what the pessimists are really worried about is what construction is doing by itself—in their view, building has outraced the market.

This may have been true in the speculative rush of the 1920's when apartments and office buildings went up in many locations with little or no assurance of demand to fill them. But nowadays, the speculative element in new construction as a whole is of much smaller import.

In the first place, approximately 30 per cent of all new projects are now publicly-owned compared to about 20 per cent in the 1920's. No matter what the political implications of this may be, schools, roads, public buildings, etc. are obviously non-speculative projects.

But in the private sphere, too, there is now little chance of building too far in front of the market. Utility systems, churches, factories, and private hospitals are practically always built on order for the owners. True, there is some speculation in office building and store building, but even here it is a rare shopping center or office building that is put up before the owners have located at least their major tenants.

Housing is the one big area where speculative building still plays a major role. Yet despite the rise of the merchant builder in the postwar period, there probably has been considerably less "risky" building in the single-family house field than is popularly imagined. Many developers build from models, and undertake construction only when they have a buyer. Others build perhaps a month or so ahead of sales; if the flow of sales turns down, they curtail their output. Since a typical house can be put up in a few months, the builder can react quickly to market changes. Furthermore, because most builders depend on borrowed funds, they cannot push out too far ahead without the consent of their lenders. The generally conservative attitude of most banks and other institutions involved in home construction financing tends to limit reckless expansion of home building operations.

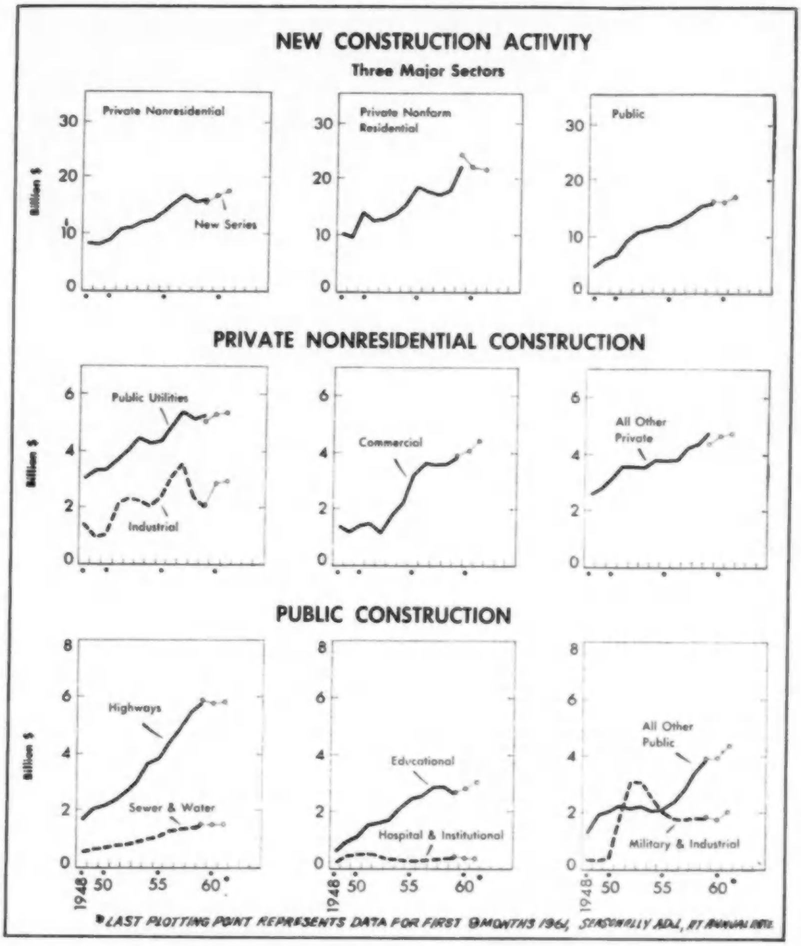
Nevertheless, there is one remaining area which is still quite prone to out-and-out speculative building. That is apartment construction. If anything, apartment building on a speculative basis has been made easier by the Real Estate Investment Trust Act of 1960. There are now signs that the recent boom in apartment construction may be overreaching itself in some places. More about this a little later. But for the moment, it should be remembered that, important as this type of construction is, it represents only a small fraction of total construction—about seven per cent at present.

The Current Outlook

So far we have been discussing only a negative or neutral factor in the construction outlook. But if we can assume, as the foregoing evidence suggests, that building activity will not fall on its face in the near future, what is it going to do? The answer to that should be revealed to a considerable extent by conditions in the various sectors of the industry.

The setting is, for the most part, rather favorable. The mild recession of last winter is a shadow of the past. The major indicators of the national economy are pointing to further business gains in the months ahead. Typical forecasts of the broadest measure of the economy, the Gross National Product, predict a level of between $560 billion and $580 billion (at annual rates) by the fourth quarter of next year. If realized, this would represent a substantial increase over the last reported figure of $526 billion for the third quarter of 1961. Industrial production, consumer spending, and plant and equipment spending are also expected to move into new high ground. Sharply increased defense spending will contribute a fillip to the normal recovery pattern.

- True, credit conditions will probably tighten



somewhat during the coming year but not enough to really discourage construction. Continuing inflation will also pose a serious problem and unemployment may still be at uncomfortably high levels. But barring a drastic worsening of the international situation, which would throw all present economic forecasts out of line, 1962 shapes up as a prosperous year for most lines of activity.

A rise in the gross national product of the size indicated, would benefit many types of construction, particularly in the privately-owned sector. Naturally, even in this sector, not all building categories would share in the expansion to the same extent. and this leads to consideration of some specifics of the construction outlook.

Non-Residential Building Particularly Active

► **The largest single non-residential building category is commercial building — office buildings, stores, restaurants, garages, etc. Dollar expenditures in this category amounted to a record $4.2 billion in 1960 and are currently running over 10% ahead of last year's pace. The high volume of contract awards for both stores and office buildings during the first eight months of 1961 appears to guarantee continuation of the upward trend in commercial building. Contracts, of course, precede actual construction activity by varying periods. In the case of a large office building, the lead time is substantial, running two years or more from the date of the contract award to completion of the project.**

For 1962, new construction activity in the commercial building field should amount to over $4.6 billion, up at least 5% from this year.

• On the local scene, commercial building contracts in New York City area are moving well ahead of last year. More than 12 million square feet of office space is now under construction for completion through 1962 in Manhattan alone, and nearly 10 million square feet of additional office space is projected for completion by the end of 1963. Plans for new office and apartment buildings in the city are collecting at a record rate. Part of this rush, of course, reflects the desire to file plans before New York's new zoning code takes effect at the end of the year.

Overbuilding Fears Exaggerated

► Despite the indications of a strong showing for commercial buildings next year, this category remains particularly subject to accusations of "overbuilding." New York City office building has been singled out as an example of "too much, too soon". A substantial part of the general office building boom in recent years has been attributed to tax considerations alone, which could be changed at the whim of Congress.

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Recent Drop in Contract Awards May Check Factory Construction Next Year

► Moving on in the *(Please turn to page 210)*

This year, however, Republic's profits are at a more respectable level of 81¢ a share. Nine month figures, however, are still behind a year ago, indicating that, despite three consecutive quarters of recovery, full-year earnings may still trail 1960. The comparison is not completely valid, however, since earnings in the first quarter of 1960 were still exceptionally high as an aftermath of the steel strike that halted production for the entire last quarter of 1959.

What is still disturbing, however, is the fact that earnings for Republic fell behind the 98¢ a share reported in the second quarter of this year. The early model changeovers in the auto industry, of course, cut the demand for steel. So did the threat of major auto strikes since the car makers ordered steel with caution in the face of protracted negotiations. Nevertheless, demand from other major steel users was also laggard—or at least far from spirited.

Further evidence comes from the **Youngstown Sheet** figures. Earnings doubled over the third quarter of a year ago, but this year's $1.47 a share compares with $2.34 a share in the second quarter. The sharp drop hardly paints a picture of a booming economy. Both companies have high hopes for the fourth quarter, but from the data available so far, they will not be realized. Steel production has actually declined moderately so far in the final quarter, so that even a sharp upturn in the last month of the year can hardly bring in enough profits to top last year's record.

Better News Among The Consumer Industries

If heavy industry is having its troubles there are others, however, that continue to enjoy prosperity. Companies closely tied to the consumer are again proving their mettle. **Gillette,** whose profit record has been extraordinary in the past few years, continues along the same path. After a slow start in the third quarter, earnings suddenly spurted in the wake of a sharp upturn in demand for razor blades, pens and cosmetics. The pleasant result was earnings of $1.33 per share vs. $1.03 in the second quarter and only $1.01 in the third quarter of last year.

Gillette's policy of merchandising only low priced, everyday items has proved a bonanza. Nine months earnings this year, in fact, topped full-year earnings for 1959 and at $3.43 a share were only 50¢ behind the full-year results for 1960. The price of the stock has probably outrun the earnings, but investors should pay it serious attention if the issue should decline in a general market setback.

Reynolds Tobacco also continues its winning ways with each passing quarter. Cigarette shipments were up again and earnings climbed to 79¢ a share from 67¢ a year ago. In addition, the current figures represent a modest improvement over the 74¢ reported in the second quarter.

Reynolds has grabbed off the lion's share of the new mentholated cigarette market, while remaining among the leaders in conventional brands. Its record of success is long established, and is evidenced by its high price and significantly lower yield among the cigarette companies.

Liggett & Myers, however, still shows evidence of the troubles that have beset it for the last few years. The company's brands have been losing out gradually to others, and profits have consequently felt the pinch. Moreover, the attempt to recapture its position is leading to high promotional costs and lower profit margins.

A year ago Liggett had sales of $141 million and earnings of $1.83 a share. In this year's third quarter sales fell sharply to only $133 million and earnings dropped to $1.73. Sales and earnings were also both below the second quarter. Liggett should cover its dividend but coverage is getting smaller each year, making it necessary for investors to watch developments closely.

Another star performer in the consumer fields which continued to make progress in the third quarter was **General Foods.** Sales actually declined moderately from last year's third period, but better profit margins raised per share net to 71¢ from 68¢. The company is an established blue chip in the food field and demonstrates year after year that it has the products and the know-how to maintain a constantly rising earnings trend.

Caterpillar, Douglas Aircraft, Continental Can

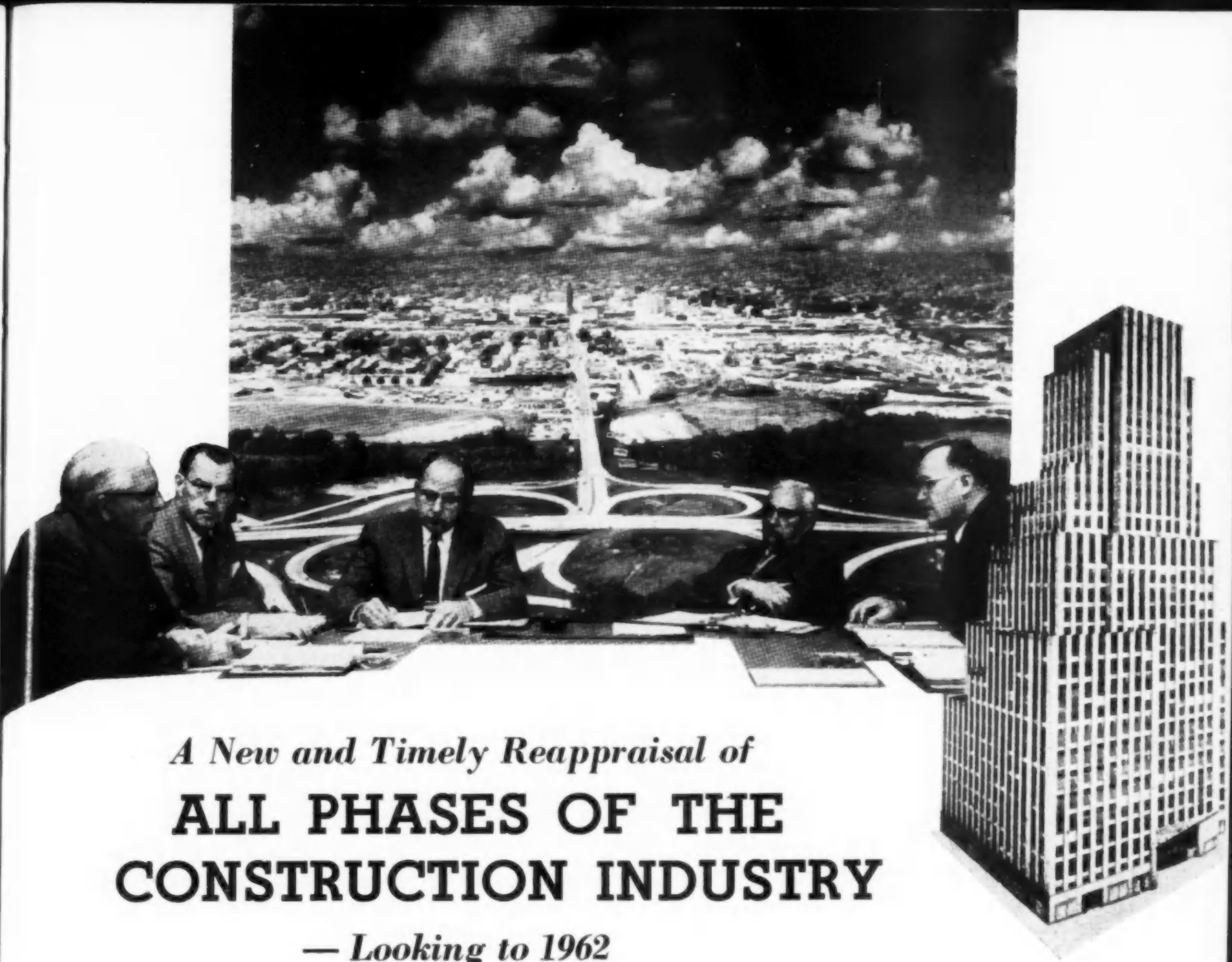
Shareholders did receive favorable reports from several companies that have been exhibiting troubles recently. **Caterpillar Tractor** scored an unexpected resurgence in sales in the third quarter, and at the same time widened its profit margin substantially. Earnings came to 60¢ a share from only 45¢ a year ago. Moreover, despite the slowdown in some segments of the economy during the summer, Caterpillar also managed to better its second quarter results.

The company has been concentrating on cost reduction and the maintenance of the price line. Obviously these measures have been largely successful, as profits expanded sharply as soon as shipments turned upward.

Even more reassuringly, **Douglas Aircraft** this year has finally broken out of the string of deficits it had been reporting to shareholders. Profits were reported in the two opening quarters of the year and again in the most recent period. But although the 33¢ a share earned in the third quarter looks good compared to last year's $3.43 deficit, the figures and the news from the company still leave much to be desired. Third quarter earnings were the lowest for any quarter this year, reflecting a sharp decline in shipments. In addition, the company reported a big drop in its backlog position as a result of the termination of aircraft contracts. The virtual end of the B-70 program will cause additional troubles for Douglas.

On the plus side, most of the development costs of the jet transports have now been written off, so that earnings will no longer be punished as severely as they were over the last two years. Still the chance of a strong earnings uptrend in the near future appears remote.

Continental Can's report made happier reading for shareholders. In the past year or two, operations have been upset by price problems and the need to develop new lines of *(Please turn to page 205)*



A New and Timely Reappraisal of

ALL PHASES OF THE CONSTRUCTION INDUSTRY

— Looking to 1962

By EDWARD A. SPRAGUE

IN 1961, the building business should account for a greater dollar amount of goods and services than in any previous year in our history. This now seems a fairly safe assumption with the current rate of new construction expenditures running well ahead of last year. The Department of Commerce estimates that total 1961 construction activity will be valued at $57.8 billion. Little wonder, then, that construction is known as the nation's largest fabricating industry.

Furthermore, construction has been one of the "growingest" industries in the postwar period. With the single exception of 1960, when a small decline was registered, overall expenditures for new construction have risen each year since the close of hostilities in 1945. The industry has weathered four postwar recessions without stopping for breath. It has taken steel strikes, the Korean War, and housing "scandals" in stride.

Not all building types have shown such consistent gains as the total, naturally, and rising costs have moderated the increases in the physical volume of building (in terms of square footage or price-adjusted dollars). Nevertheless, the industry can "point with pride" to an enviable record of growth and accomplishment over the last 16 years.

Yet there are now, and have been right along, nagging fears about the future of the building business. No matter how prosperous it has been, at any given moment you could find a handful of people asking, "Yes, but can it last?" The fact that it has lasted for 16 years has dampened the pessimism of some, but their places have been taken by others.

The most frequent question asked by the chronic pessimists is: "Aren't we in danger of over-building?" To properly answer that question, we should first examine the reasons for asking it.

Ghost of 1933 Still Haunts Building Industry

The building business was once considered extremely sensitive to every swing in general business activity. It was thought to react more strongly to the gyrations of our national economy than many other industries, even those manufacturing durable goods such as automobiles and appliances.

In addition, economists in the past busied themselves analyzing the so-called "long-wave" cycles in new construction. The most popular of these was the "18-year cycle" whereby construction was supposed to complete, on the average, a full circle of gradual growth, relapse, and new growth every 18 years. Theoretically, the "long-wave" cycle operated

independently of short-run fluctuations in building induced by general business conditions. Economists did admit, of course, that a business "panic" (as recessions were formerly called) could distort the long-run building trend, temporarily retarding the upward phase or speeding the downturn, depending on when the panic occurred. The reverse was held true for periods of business prosperity.

In the prewar historical record a fair amount of evidence could be found to support these views. Cited as the most notorious example was the behavior of the construction activity during the cataclysmic depression of the 1930's. By 1933, expenditures on new construction had fallen steadily and with distressing rapidity to a level 66% under the previous peak year of 1927. It then required eight years to regain the lost ground, and might have taken longer had it not been for the stimulus of rearmament.

Although this well defined cycle ran under 18 years, at the time it seemed to vindicate the "long-wave" theorists. The assumption was that a severe business contraction had coincided with a general downtrend in building. The result was, in fact, extensive unemployment, plunging sales, disappearing profits, and high failure rates in contract construction and the building materials industries.

Because the building business was hit so much harder by the Great Depression than most other industries, the scars have taken longer to heal. Unquestionably, the current fears of "overbuilding" stem, in large part, from the sad experiences of the 1930's. Thus, despite almost constant expansion since World War II (and, according to some observers, because of it), the spectre of a serious collapse in construction activity still looms in the minds of many investors, businessmen, and economists alike.

What is Different Now

There is no gainsaying the *possibility* of a drastic cutback in construction in the near future. But our present economic environment and more particularly the composition of the construction industry itself make such an event rather unlikely.

Much has been written about the role of "automatic stabilizers" and built-in safeguards that have made the general economy less liable to a serious depression. The increasing sophistication in the reporting of economic trends and in the use of monetary and fiscal policies by the Federal government is another factor. This certainly does not mean the business cycle is no longer a problem. But an economic catastrophe on the order of the Great Depression is no longer likely to impinge on the construction industry.

So much for that external threat. But what the pessimists are really worried about is what construction is doing by itself—in their view, building has outraced the market.

This may have been true in the speculative rush of the 1920's when apartments and office buildings went up in many locations with little or no assurance of demand to fill them. But nowadays, the speculative element in new construction as a whole is of much smaller import.

In the first place, approximately 30 per cent of all new projects are now publicly-owned compared to about 20 per cent in the 1920's. No matter what the political implications of this may be, schools, roads, public buildings, etc. are obviously non-speculative projects.

But in the private sphere, too, there is now little chance of building too far in front of the market. Utility systems, churches, factories, and private hospitals are practically always built on order for the owners. True, there is some speculation in office building and store building, but even here it is a rare shopping center or office building that is put up before the owners have located at least their major tenants.

Housing is the one big area where speculative building still plays a major role. Yet despite the rise of the merchant builder in the postwar period, there probably has been considerably less "risky" building in the single-family house field than is popularly imagined. Many developers build from models, and undertake construction only when they have a buyer. Others build perhaps a month or so ahead of sales; if the flow of sales turns down, they curtail their output. Since a typical house can be put up in a few months, the builder can react quickly to market changes. Furthermore, because most builders depend on borrowed funds, they cannot push out too far ahead without the consent of their lenders. The generally conservative attitude of most banks and other institutions involved in home construction financing tends to limit reckless expansion of home building operations.

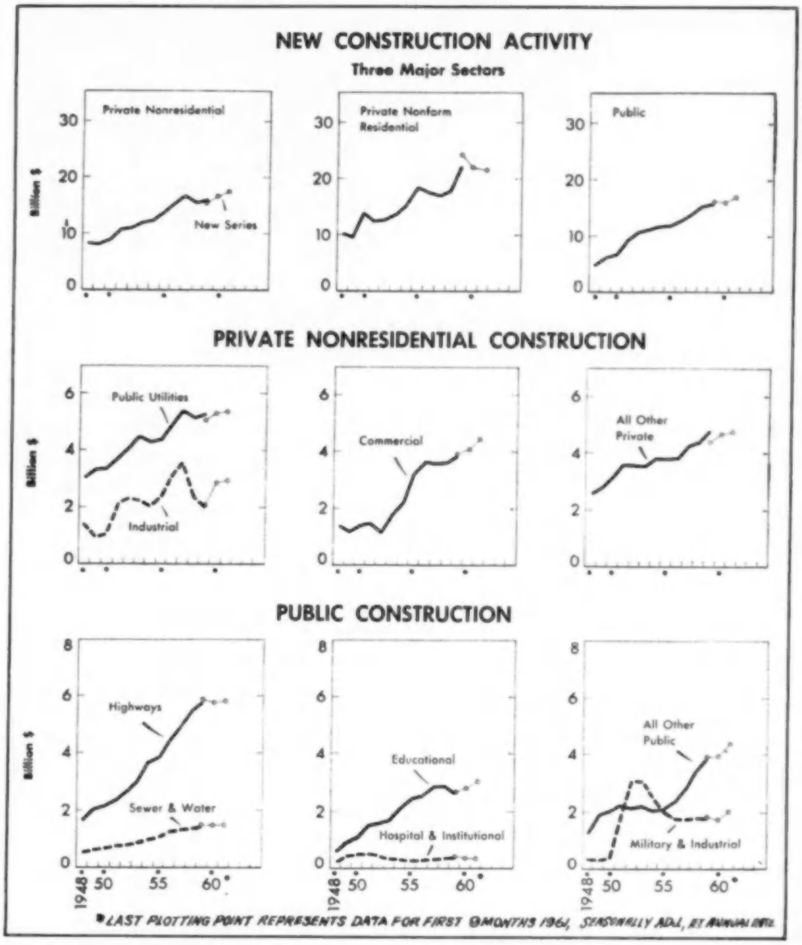
Nevertheless, there is one remaining area which is still quite prone to out-and-out speculative building. That is apartment construction. If anything, apartment building on a speculative basis has been made easier by the Real Estate Investment Trust Act of 1960. There are now signs that the recent boom in apartment construction may be overreaching itself in some places. More about this a little later. But for the moment, it should be remembered that, important as this type of construction is, it represents only a small fraction of total construction—about seven per cent at present.

The Current Outlook

So far we have been discussing only a negative or neutral factor in the construction outlook. But if we can assume, as the foregoing evidence suggests, that building activity will not fall on its face in the near future, what is it going to do? The answer to that should be revealed to a considerable extent by conditions in the various sectors of the industry.

The setting is, for the most part, rather favorable. The mild recession of last winter is a shadow of the past. The major indicators of the national economy are pointing to further business gains in the months ahead. Typical forecasts of the broadest measure of the economy, the Gross National Product, predict a level of between $560 billion and $580 billion (at annual rates) by the fourth quarter of next year. If realized, this would represent a substantial increase over the last reported figure of $526 billion for the third quarter of 1961. Industrial production, consumer spending, and plant and equipment spending are also expected to move into new high ground. Sharply increased defense spending will contribute a fillip to the normal recovery pattern.

• True, credit conditions will probably tighten



somewhat during the coming year but not enough to really discourage construction. Continuing inflation will also pose a serious problem and unemployment may still be at uncomfortably high levels. But barring a drastic worsening of the international situation, which would throw all present economic forecasts out of line, 1962 shapes up as a prosperous year for most lines of activity.

A rise in the gross national product of the size indicated, would benefit many types of construction, particularly in the privately-owned sector. Naturally, even in this sector, not all building categories would share in the expansion to the same extent, and this leads to consideration of some specifics of the construction outlook.

Non-Residential Building Particularly Active

► **The largest single non-residential building category is commercial building — office buildings, stores, restaurants, garages, etc. Dollar expenditures in this category amounted to a record $4.2 billion in 1960 and are currently running over 10% ahead of last year's pace. The high volume of contract awards for both stores and office buildings during the first eight months of 1961 appears to guarantee continuation of the upward trend in commercial building. Contracts, of course, precede actual construction activity by varying periods. In the case of a large office building, the lead time is substantial, running two years or more from the date of the contract award to completion of the project.**

For 1962, new construction activity in the commercial building field should amount to over $4.6 billion, up at least 5% from this year.

• On the local scene, commercial building contracts in New York City area are moving well ahead of last year. More than 12 million square feet of office space is now under construction for completion through 1962 in Manhattan alone, and nearly 10 million square feet of additional office space is projected for completion by the end of 1963. Plans for new office and apartment buildings in the city are collecting at a record rate. Part of this rush, of course, reflects the desire to file plans before New York's new zoning code takes effect at the end of the year.

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Inside Washington

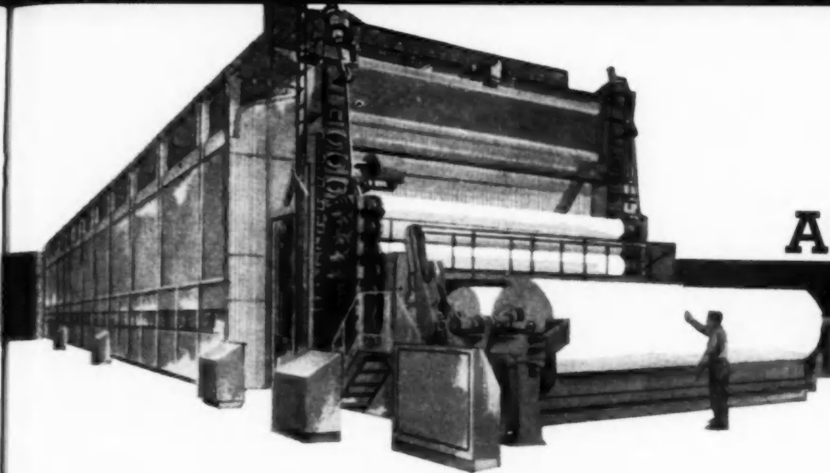
BY "VERITAS"

ORGANIZED LABOR, after a series of setbacks in the recently-ended Session of Congress, is "getting on the ball" to effectuate its prime legislative goals early in the next Session. With a months-early solicitation of funds for the 1962 Congressional campaigns, AFL-CIO's political arm, Committee on Political Education (COPE), plans to build a cash reserve within the next two months that will be impressive to those segments of Congress which have ignored Labor's wishes thus far. Wanted by the labor groups are higher — and longer — unemployment compensation, retraining (at Federal expense) of workers displaced by automation, medical care through additional Social Security levies. These three are "tops" on the Labor list of "must" legislation. COPE officials privately say if they can raise a $1 million fund by next January, Congress will be more "amenable" to their wishes.

> **WASHINGTON SEES:**
>
> The necessity for military action in Viet Nam mounts daily as the Communist guerillas, well-trained and excellently equipped, continue their attacks on the little southeast Asian republic.
>
> Military men here are tight-lipped on the subject, but quietly spur preparations for conflict. Threatened along with Viet Nam is Saigon, where the Reds have twice tried to assassinate our Ambassador. Loss of the two would mean a complete victory for the Reds in southeast Asia.
>
> Even if other Asiatic nations join us in military action, we would have to supply a large portion of the fighting man-power as well as arms for those allied with us. In the background is a Red Chinese army of perhaps 1.5 million "volunteers." It could well touch off World War III—and that is the Red Chinese aim, according to informed sources here.
>
> The decision will be one for President Kennedy after he receives the personal report of General Maxwell D. Taylor, his Chief Military Advisor who has been studying the situation on the ground. The situation looks grim, but General Taylor has said nothing for publication, and will not until after his conference with the President.
>
> The Viet Nam and Laotian situations are part of a carefully planned Red pattern to weaken our ground forces in Europe — the Berlin area in particular.

REPUBLICAN National Committee has high hopes this year. They talk little, but fact remains they hope to capture the New Jersey governorship and two southern Congressional seats this fall. In Texas, the GOP expects to elect John Goode running against liberal Democrat Henry Gonzales. There is the possibility that former President Eisenhower will make a personal appearance in behalf of the Republican candidate. In Louisiana, the GOP candidate is Charlton B. Lyons, Sr., outstanding Shreveport oil executive and civic leader who last year abandoned the Democratic Party for its sponsorship of a "blueprint for totalitarianism." The two southern elections are regarded as indicative of a hope that the GOP can recapture the House next year. As in the case of the Texas race, Mr. Eisenhower may speak in behalf of the Louisiana GOP candidate—may definitely point to his appearance in more Congressional campaigns.

CONGRESS, in back-stage maneuvering as well as some polling of grass roots sentiment, plans a wage hike for itself early in the next Session. Historically shy in fixing their own stipend, the Solons are now carefully conning tentative recommendations of the Labor Department to raise the ceiling on top annual salaries of classified Civil Service Workers from the present $18,500 to $31,805, nearly $10,000 more than the present Congressional salary of $22,500 — also, the Congressmen eye an upcoming Administration proposal to hike Cabinet officers to around $45,000 a year. Congress doubtless will have to "go along," especially in view of shortages of scientific personnel. In "going along" the legislators will get theirs.



AS WE GO TO PRESS

Lagging Retail Sales Disturb Federal Agencies, Labor Unions and Private Economists. With an economy (other than Defense) depending mainly upon the movement of merchandise to the consumer, recent drops in retail sales are of concern to the Department of Commerce, Federal Reserve Board and the AFL-CIO. Commerce Secretary Luther Hodges has previously spoken out on retail sales, somewhat condemning retail sales forces for not trying to do a better selling job. The Federal Reserve Board has no comment on this angle, merely notes that such sales are stagnant.

Unions are critical of FRB's attribution of the recent decline in output to strikes in the durable goods industries (primarily autos), and hurricane Carla. According to the unioneers, production of durables is at an all-time high (despite automobile work stoppages). The real problem, according to the unions, is slowing retail sales, thus keeping production lines from "humming." In the background is a trend away from buying toward saving by individuals, as reflected by mounting sales of Government Services "E" and "H" Savings Bonds as well as upped deposits in Federally-guaranteed savings and loan associations.

Early Next Session Problem for Federal Government Will Be Low Pay for Qualified Scientists, Engineers, Physicists. Government pay scales in these fields simply do not match those available in private industry. The graduates in these fields can walk from the campus into private industry at pay ranging up to 75% more than is offered by Government. It may be a part of the President's State of the Union Message, but perhaps there will be a special and urgent message on the subject. Spot checks with several of the government agencies in the fields of research and development reveal shortages of scientific personnel range from 20% to 35% below actual needs. Some of the agencies are overcoming the situation by farming out important defense, nuclear, and electronic research to private research organizations with qualified personnel, paid well above government scales. In these instances, it is not as easy to maintain the tight security checks possible in a government-run undertaking. Previously broached in Congress has been a National Scientific Academy with students getting free tuition and other emoluments, the guarantee of better pay, all with the proviso that they serve a definite number of years after graduation.

Kennedy Budget Deficit Subject of Washington Dispute. Administration Whiz Kids and slide rule experts say it will be only $6.7 billion. This is disputed by one private economic research organization which avers that $9.2 billion will be more nearly correct. Meantime Sen. Hugh Scott, Pennsylvania Republican, an astute analyst of Federal finances, predicts a whopping $12 billion, pointing up only half of that sum was for necessary national defense, the other half for domestic programs which could have been forgone in the interests of fiscal responsibility. It may add up to stiffer taxes early in the next Session of Congress, despite Commerce Secretary Luther Hodges' recent declaration that we can scale down our steeply progressive Federal income tax rates by closing some of our tax loopholes.

One in Four Counties Economically Depressed, Says Area Redevelopment Administration. This, according to Department of Labor experts,

is simply not true. The Department, which kept pretty close tabs on employment and industrial complexes for many years, placed the figure at approximately 100 counties. ARA, created last May 1, and with a "kitty" of $300 million, far more than the original (and carefully studied) 100 counties could use, has arbitrarily increased the figure to 750. It is to be soon followed by intensive ARA efforts to "sell" the 650 additional counties the idea they are really depressed, hence in need of bureaucratic and financial assistance from Washington. Great numbers of the areas are highly resentful of the depressed area stigma. Like all burgeoning bureaucracies the new agency wants as many "clients" as possible for the preservation of bureaucratic jobs — and bigger appropriations in the future. During the last Session of Congress Sen. Harry F. Byrd, Virginia Democrat, long a "watch dog" of Federal spending, forecast that Area Redevelopment would, within a short span of time, be asking as much as $2 billion annually.

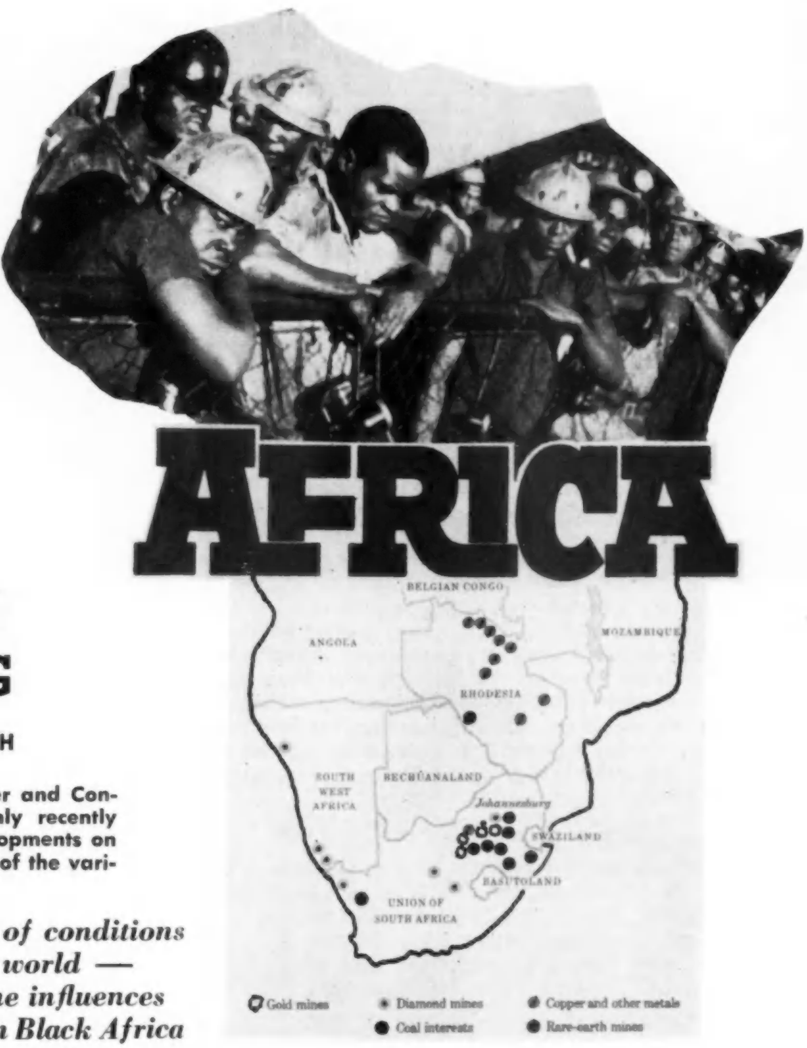
Ike Brakes Goldwater's Forward Surge. The ultra-conservative Arizona Senator, who has been making progress toward the GOP Presidential nomination in 1964, is having his march "sabotaged" by former President Dwight D. Eisenhower who is quietly passing the word that, despite his personal affection for the Senator, he regards him as entirely too reactionary to compete with President Kennedy in a 1964 bid for the White House. If the reports on Mr. Eisenhower's views are correct, and they come from good sources, then the Arizonan is "out of the picture," for the reason that the former President is virtually the leader of his Party today, despite Mr. Nixon's claim of titular chieftain.

Smart Political Money in Washington Is Now Offering 5-3 on Former Labor Secretary Mitchell to Capture New Jersey Governorship. And some of the money is being offered by "wheels" in the AFL-CIO, which initially sponsored the Democratic candidate, Richard J. Hughes, former Appeals Court Judge. The Labor men have reluctantly come to the conclusion that Hughes is a weak, ineffective candidate — sort of a nonenity. At the outset of the campaign, many AFL unions favored Mitchell "because of his fair dealings with organized labor in his Cabinet post." The Jersey labor split has already cost the Democratic candidate around $80,000 in cash contribution to his campaign — may cost him even more. Educated guesses in Washington are a Mitchell victory of near-landslide proportions.

Washington Observers Discount Chiang's Announced Plans to Attack Red China. The Formosan Generalissimo recently said the attack would take place "in the near future." Military and intelligence forces here say he simply hasn't the muscle. Although he has U. S. jets, artillery, tanks and other field equipment — as well as a well-trained and disciplined army, he lacks the sea power to get to China mainland. Mao Tse-Tung could crush his efforts by sheer weight of manpower that has been equipped by his Russian ally to the West. Back-stage efforts here will be to curb China, lest he set off a war that would need help from the U. S. at a time when we are concentrating almost all-out military efforts in the Berlin area. By treaty, we are committed to the defense of Chiang's republic, but we are not committed to military operations that he may initiate. Our Seventh Fleet continues patrol of the Formosan Straits, but purely as a defensive force, not as one to aid Chiang in an operation not approved by this government.

Peace Corps Troubles Mount. The recent indiscreet remark (on a post card) which stirred up a controversy about "primitive" conditions in Nigeria, and recently sent R. Sargent Shriver, the President's brother-in-law, on an almost world-wide tour to sell and resell PC to the beneficiary nations, has brought the hastily conceived idealistic organization into ill-repute with Congressional forces who will be called upon next year to appropriate for its continuance.

Principal Capitol Hill criticism of the new "good will" outfit is that it was recruited among collegiates who knew absolutely nothing of the diplomatic facts of life, that they were too raw and green for their tasks, and lacked the engineering and professional skills to be of real help to the beneficiary nations. Look for "fireworks" when Congress reassembles in January.



BLACK AFRICA and AMERICAN FINANCING

By SANFORD GRIFFITH

Director of African Study Center and Consultant on African Affairs (Only recently returned from a study of developments on that Continent and the position of the various new states)

— A realistic evaluation of conditions existing in that part of the world — with an inside picture of the influences affecting private investment in Black Africa

BLACK Africa—West and Equatorial—will need a large amount of private financing if Africans are going to move into the modern world in our time. The impression is erroneously held that there has already been a big volume of American financing to Africa. Loans pending have been repeatedly reported, thus creating the illusion of a quantity of loans instead of just one—or none.

Our government grants and loans to Africa, military as well as economic, have been given more emphasis than they deserve. True, considerable American private money in the past has gone into mining and industrial areas in lower Africa. But in many areas, and notably in Black Africa, we have invested very little. Consequently in giving our notions as to what should be done about problems in Africa we have been inclined to assume that we have much more influence than we actually have. In reality we have scant influence in shaping any of the basic economic changes taking place there.

Extent of U.S. Investment in Central Africa

We should consider how small our participation in Black African states has actually been. In the fourteen new states, U.S. government grants and loans have been minute or nil. Although our business people have flocked to busy commercial centers such as Dakar, Accra, and Lagos, there has been much window shopping but few actual financings. **True, three or four large mining or rubber corporations have invested substantial sums. But this has been in the nature of internal company financing as a part of a company's international expansion. Significantly, some of these commitments are covered by U.S. government insurance against possible political confiscation and might not have been made otherwise. Except in Liberia, our banks have been slow to set up branches in West Africa.**

U. S. Government Aid To African Countries

Country		Total Econ. Aid	Total Military Aid	Grand Total
Ethiopia	1959	$9.7	$5.9	$15.6
	1960	7.4	8.1	15.5
Total	1946-1960	72.8	50.3	123.1
Liberia	1959	13.8	—	—
	1960	11.4	.3	11.7
Total	1946-1960	61.5	1.3	62.8
Libya	1959	28.5	.3	28.8
	1960	32.9	.7	33.6
Total	1951-1960	150.8	2.5	153.3
Morocco	1959	48.2	—	—
	1960	80.9	.7	81.6
Total	1952-1960	194.6	.7	195.3
Tunisia	1959	33.9	1.3	35.2
	1960	57.6	3.7	61.3
Total	1952-1960	136.4	7.1	143.5

substantial increases in production and a rise in the standard of living in the immediate future. But now, some of the new African states have been independent for several years, and the results do not measure up to the promises they made the people.

African leaders have had the notion until lately that Americans with money and know-how would be waiting eagerly for a chance to move in. How is it then that they failed to get together with Washington and with private lenders for the help they need to get productive enterprises going?

Before any money was even in sight some leaders were already worrying about the onerous conditions Americans would impose for their loans. The Russians encouraged this anxiety. Even some of the Europeans, partly for competitive reasons, also warned Africans against this danger. With colonialism now a dirty word, some Africans dubbed us neo-colonialists, implying that along with our financing we would bring in a batch of new colonial attitudes. But African leaders, warning their people against exorbitant loan conditions, were in reality shadow-boxing because few lenders were waiting.

In recent years we have made many brave and optimistic forecasts about American participation in Africa. **In Washington since the inception of Point IV, the concept has been that initial government loans would prime the pumps for a substantial flow of private capital. As late as last year the National Foreign Trade Council emphasized that economic development should be the function of private enterprise and that an expanding volume of capital is available. But so far it has not been available for Africa.**

Waiting for the Horde of American Capitalists

African leaders, in talking of the benefits that would come with political freedom, assumed that their problem mainly would be how to control the foreign entrepreneurs, rather than having to coax them to take part in developing the Continent. Thus African leaders gave their peoples hope of

Rancor from Uneven Division in African Hand-outs

Washington has put Africa last among all continents for grants and loans. Loans have been allocated evidently without concern for the size of the country or the urgency of needs. Loans have usually been considered in Washington as a way to cement friendships. But loans can also serve as a way to generate discord among applicants. This has been the result, if not the aim, of much of our financing, particularly in Africa. The amount that each continent received, in millions of dollars, in the fifteen years to 1960 is shown at the top of the next page.

Capital Spending by U.S. Companies in Africa

(In millions of dollars)

Area	1959			1960			1961e			1962e		
	Mining and Smelting	Petroleum	Manufacturing	Mining and Smelting	Petroleum	Manufacturing	Mining and Smelting	Petroleum	Manufacturing	Mining and Smelting	Petroleum	Manufacturing
North Africa	*	40	*	*	75	*	*	150	*	*	165	*
East Africa	*	9	*	*	7	*	*	7	*	*	12	*
West Africa	11	14	*	16	23	*	36	26	*	46	23	*
Central and South Africa	23	12	9	28	10	10	25	12	9	23	28	10
Union of South Africa	9	a	9	15	*	8	12	*	7	10	*	9
Others	14	a	*	13	a	2	13	a	2	13	a	1
Total	34	74	10	44	115	10	61	195	10	69	228	11

a—Included in area total. e—Estimated. *—Less than $500,000.

Europe	$41,222
Far East	$17,934
Near East and S. Asia	$12,798
Latin America	$ 4,108
Africa	$ 799

Thus Europe received about 200 times as much as Africa. True, some of this was passed down to the African colonies but only in very small proportion. We put twenty times as much into the Far East, and five times as much into Latin America as into Africa. *More glaring is the fact that we put over $2 billion into Communist Yugoslavia and $1.1 billion into Pakistan.*

And a similar disproportion exists in our government aid to specific countries in Africa during the same fifteen year period. For example, Egypt, usually hostile toward us, received $254.4 millions or four times as much as the $62.8 millions that went to Liberia—the only country in West Africa to which we made a substantial grant. Morocco alone received $195.3 millions, or about $20 per capita. Little Tunisia received $143.5 millions, or about $36 per capita. Libya received $153.3 millions or over $100 per capita. In contrast to this some foreign countries in West and Equatorial Africa received practically nothing.

Strategic explanations may exist for the above grants but there certainly were not valid economic or social ones. It is understandable that these disproportions generated more frustrations and resentment than gratitude. It should not surprise us that the Africans fumbled around with mistaken explanations such as our favoring Moslems over others; our racial discrimination against Blacks; and, although calling ourselves a democracy, we have shown an inclination to favor feudal monarchs.

Nearer the mark is the African intimation that we give financial aid more readily to vacillating neutrals than to known friends.

Limited Success in Playing Russia Off Against the U.S.

A routine procedure of the neutrals, including several African leaders, has been to couple requests for grants and loans with the intimation that if we did not come across they would turn to the Russians. The threat has worked in more instances than we like to admit. Getting foreign grants through Congress also works easier when coupled with the Russian threat. **The result is that much of the really humanitarian spending we have made to meet world needs carries a label we ourselves put on it of strategic necessity.**

Many African leaders really did assume that if they couldn't get substantial American aid they could get Russian. Disappointed in Washington, they asked for some of that money the Russians boasted about giving, with no strings attached.

The Results?

Some got credits for Soviet goods that they did not particularly need. Some are discovering that instead of strings there were ropes attached.

Only Egypt and Guinea were favored with really substantial loans. **Most disconcerting of all to the Africans was the discovery that the Russians showed no eagerness to take on the substantial load of lifting emerging African nations into the modern world.**

Money for improved radio transmission and plane communications in areas where the Russians choose to penetrate, yes. Technicians and money to buy and operate Russian planes and to expand airfields, yes. But the Russians have shown little tangible interest in supplying funds for large scale programs for social betterment.

Indeed, with their far flung commitments, the Soviets would not have the means to make a tremendous economic investment in Africa, even if they chose. (Incidentally, we have been inclined to exaggerate the extent of Russian penetration in Africa. Washington has been coaxed into some crash financing in Africa that probably would not have been made if the Russian threat had been seen in its true proportions.)

Failure To Recognize Need for Attracting Private Capital

African leaders are slow to recognize the realities in the world money market situation and their need of private capital if they are going to get their industrial programs under way. For peoples who are shoeless there is no point in talking about a bootstrap operation. Capital for industries must somehow be found, but accumulating domestic capital will necessarily be a slow process extending over many years. To date, neither European nor Soviet capital have been sufficient to raise the people above a bare subsistence level. And apparently no substantial U.S. government funds are going into Africa within the next couple of years. **This then leaves only American private capital as the one vast reservoir of technical skills and money potentially available.**

(Please turn to page 209)

Leading Companies in Tropical Africa

Uniliver, Ltd.: British-Dutch parent of United Africa Co., Ltd., which has largest business volume in Tropical Africa ($830 million in 1960).

Union Miniere du Haut-Katanga: Belgian mining company operating in the Congo. Now producing a record volume of copper (about 300,000 tons a year). Also has interests in cobalt, zinc, coal and other enterprises.

Compagnie Francaise de L'Afrique Occidentale: Main French trading company in tropical Africa. 1960 volume of sales was $194 million. Does business in most of former French Africa plus the Congo, Ruanda-Urundi, Ghana, Nigeria, Liberia, Sierra Leone and Gambia.

Societe Commerciale de L'Ouest Africain: Large French trading company. Handles industrial equipment and has auto assembly plants. Owns chain of five and ten cent stores.

Pechiney and Ugine: Aluminum producers participating in two African ventures. One is FRIA in which they own a 26.5% interest while Olin Mathieson has 48.5%. Other enterprise is ALUCAM, aluminum smelting plant in the Camerouns.

Royal Dutch-Shell and British Petroleum Ltd.: Market throughout tropical Africa. Export Nigerian oil to Europe and plan a $34 million refinery in Eastern Nigeria.

Societe Des Petroles D'Afrique Equatoriale: French government-controlled oil company with fields in Gabon and former French Congo. Engages in exploration ventures with Socony Mobil and Shell.

BANK STOCKS LOOK GOOD FOR 1962

By PAUL J. MAYNARD

- ► Favorable factors and trends to watch re loans and interest rates
- ► Where new mergers stand — how serious is opposition by the Department of Justice
- ► Earnings-dividend outlook — appraising position of banks in the various areas around the country — mergers — bank holding companies — institutions in the best position — with purchases to be carefully timed.

WHILE third quarter earnings reports of the nation's leading commercial banks showed more declines than gains, the market performance of this group has continued to be strong. Bank stock prices on the average have increased over 30% this year, a far better than average performance, especially in the face of a 5% average decline in net operating earnings in the first nine months. Investors appear to be anticipating material improvement in earnings, and in the general outlook for the banks in the foreseeable future. At this point it seems unlikely that they will be disappointed.

Bank Loans Lagging Behind Business Recovery — But . . .

The volume of bank loans has not yet risen with the increase in general business activity. At the end of September, bank loans to business and commercial firms were $300 million less than they were at the start of the year, compared with a rise of over $1 billion in the first nine months of 1960. However, commercial bank loans historically have tended to lag behind rises in economic activity and seldom increase in the first six to nine months of an upturn. But bank loans usually do rise rapidly thereafter if business activity continues to expand. In 1951, 1955 and 1959—years preceded by a period of rising economic activity—commercial bank loans rose by over $3½ billion and substantial gains in bank earnings also were achieved.

Interest rates have shown a tendency toward firmness as the current year has progressed, but there has been no change in the banks' prime rate on commercial loans since it was lowered from 5% to 4½% in August, 1960. **In the recession from which we now appear to be emerging, short term interest rates did not fluctuate as widely as they did in preceding cyclical swings. At the low point in 1958 the yield on Treasury bills fell below 1%, while this time it has stayed around 2¼%. In the middle of 1958 a sharp rise occurred in long term money**

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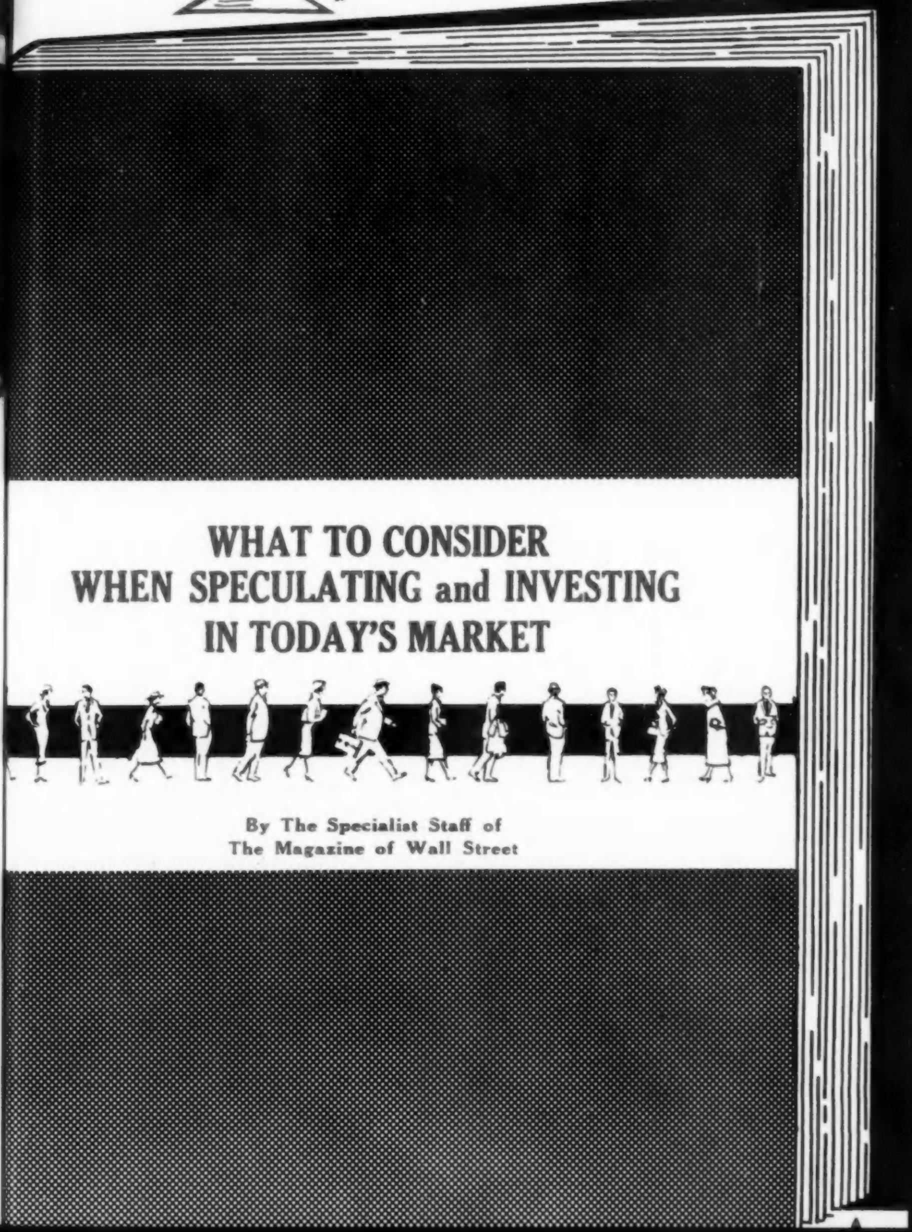

WHAT TO CONSIDER
WHEN SPECULATING and INVESTING
IN TODAY'S MARKET
By The Specialist Staff of
The Magazine of Wall Street

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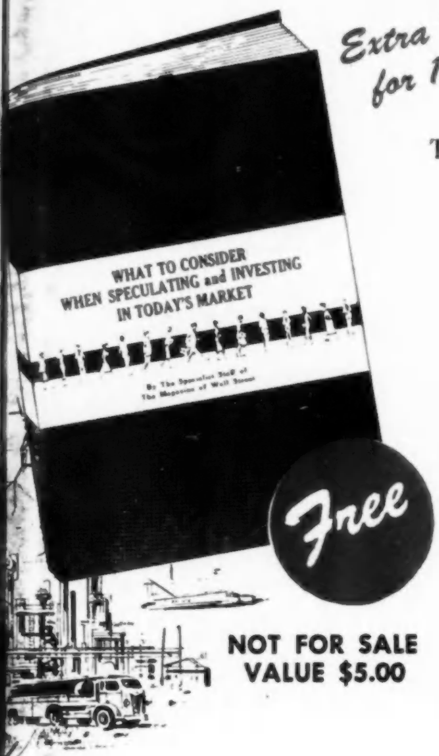

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Statistical Data on Leading Bank Stocks

	Total Deposits 9/30 1961	Total Deposits 12/31 1960	Loans & Discounts 9/30 1961	Loans & Discounts 12/31 1960	U.S. Gov't. Securities 9/30 1961	U.S. Gov't. Securities 12/31 1960	Book Value Per Share	Earnings Per Share 1st 9 Months* 1961	Earnings Per Share 1st 9 Months* 1960	Indicated Current Dividend Rate	Recent Price	Dividend Yield
	(Millions)											
Bank of America (San Fran.)	$N.A.	$10,805	$N.A.	$6,700	$N.A.	$1,782	$25.73[5]	$N.A.	$N.A.	$2.10	69	3.0%
Bank of New York	510	606	286	295	113	99	212.58	14.98	15.65	14.00	395	3.5
Bankers Trust New York	3,064	3,032	1,639	1,567	676	672	38.21	2.78	2.98	1.97	70	2.8
Chase Manhattan New York	7,849	8,143	4,248	4,336	1,619	1,779	51.17	3.70	3.95	2.50[1]	82	3.0
Chemical Bank N. Y. Trust Co.	3,901	3,898	2,243	2,234	594	569	50.32	3.82	3.60	2.60	86	3.0
Continental Ill. Nat. Bk. (Chi.)	2,837[3]	2,482	1,482[3]	1,436	564[3]	527	N.A.	N.A.	N.A.	4.00	163	2.4
First National Bank of Boston	1,650	1,615	991	913	358	392	58.25	4.64	4.69	3.00[1]	108	2.7
First National of Chicago	2,760	2,776	1,607	1,726	797	540	41.88	N.A.	N.A.	1.60[1]	93	1.7
First National City Bank, N.Y.	7,604	7,770	4,059	4,260	1,920	1,524	64.29	4.21	4.49	3.00	104	2.8
First Penna. Banking & Trust	1,129	1,119	659	645	178	127	42.15	1.52[1]	1.57[1]	1.20[2]	35	3.4
Irving Trust, New York	1,941	1,999	976	959	534	384	28.65	2.23	2.59	1.60[1]	53	3.00
Manufact. Hanover Trust N.Y.	5,073	4,818[4]	2,312	2,368[4]	1,232	996[4]	38.40	2.68	2.84	2.00	60	3.00
Mellon National Pittsburgh	1,927	1,854	928	1,055	710	509	116.12	6.78	7.16	4.00[1]	172	2.3
Morgan Guaranty Trust, N. Y.	3,775	3,646	2,286	2,352	1,121	450	75.07	4.81	5.30	4.00	133	3.0
National Bank of Detroit	1,782	1,904	591	659	566	569	47.57	3.57	3.78	2.00[1]	78	2.5
Republic Nat. Bank of Dallas	993	1,012	606	585	218	193	27.68	1.78	1.76	1.40[1]	86	1.6
Security-First Nat., Los Angeles	3,434	3,284	1,679	1,647	1,170	1,055	37.35	2.87	3.03	1.60[1]	88	1.8
Wells Fargo Bank Amer. Tr.	2,538	2,449	1,414	1,412	720	635	40.22	2.75	2.98	1.60[1]	80	2.0

*—Net operating or indicated earnings.
N.A.—Not available.

1—Plus stock.
2—After 2 for 1 stock split stockholders vote 11/6/1961.
3—Reflects merger of City National Bank & Trust Co. effective 9/5/1961.
4—Pro-forma as of 9/30/1960 to give effect to Hanover-Mfg. Trust Co merger 9/11/61.
5—As of June 30, 1961.

rates but such a rise has not occurred in 1961.

Credit Conditions Could Tighten

Since interest rates have not gone down as far or as fast during the recent dip as they did in preceding recessions, it is not expected that they will rise as sharply. However, as business activity expands, the demand for credit will increase and tend to tighten the money market. This should bring about a rise in the bank prime rate some time next year—perhaps back to the 5% rate which prevailed from September, 1959, to August, 1960.

Because of the relatively high unemployment rate of over 6%, and because of over-capacity in the productive facilities of some industries, the Administration has continued to keep the amount of available credit high. **However, if there are signs that a boom is developing it will be necessary for the Federal Reserve to tighten credit, forcing interest rates up. The international situation, particularly as it relates to the balance of payments and gold problem, also affects interest rates in this country. With the higher interest rates now prevailing in money centers abroad, it will be essential to keep our rates sufficiently attractive to prevent any drastic outflow of funds from the United States.**

Each of the four post-war recessions has brought about an increase in the total amount of earning assets of the banks—chiefly in the form of investments. This has been a by-product of the easy credit policies adopted by the Federal Reserve money managers to stimulate business and end the recession. As interest rates have risen in the ensuing recovery period there has been some shrinkage in the volume of available bank credit, but the application of the higher rates to a still relatively high volume of earning assets has spelled increased earnings for the banks. This is what now appears to be in prospect for them.

Favorable Dividend Action

Recent dividend action of several of the major banks suggests optimism on the part of management with respect to future earnings prospects.

First National Bank of Boston, for example, recently announced a proposal to pay a stock dividend of 14²⁄₇% on November 15, 1961. Simultaneously it was announced that the present $3.00 dividend rate on the bank's common stock would be maintained on the new shares. This is equivalent to cash payments on the present shares of $3.43.

Another recent development was the announcement by **First Pennsylvania Banking & Trust Co.** of a proposed 2-for-1 stock split coupled with an increase in the effective cash rate on the old shares from $2.30 to $2.40 per annum and a 1-for-12 subscription offer.

Also, **Republic National Bank of Dallas** in recent weeks has announced a 2% stock dividend and **Bank of America** has proposed a 5% stock dividend and a 1-for-16 stock offering. It is expected that dividend increases (either in stock or in cash) on other bank stocks will be forthcoming at meetings this year and in 1962.

Higher Price/Earnings Appraisals

The rise in bank stock prices which has taken place to date in 1961 has increased the average price-earnings ratio at which these stocks sell, from about 13.5 times at the start of the year to a current average of around 18 times. The latter, however, is still under the 23 times earnings ratio at which other high quality equity groups such as the electric utility stocks and the Dow Jones Industrial Average are currently selling. While the increase in the price of bank stocks places them in a higher price-earnings area than they have occupied for many years, they are still not high in relation to other quality

equity groups. In view of their strong current position and the likelihood that substantial earnings gains are in prospect over the next few years, the bank stocks have become the favorites of many large pension funds, trust companies, mutual funds and other institutional investors.

Activity On The Merger Front

Merger developments, coupled with uncertainties created by intervention by the Antitrust Division of the Department of Justice, also have played an important role in the field of bank stocks this year. Among the New York City banks, the **Manufacturers Trust**-Hanover Bank merger and the proposal of **Morgan Guaranty Trust Company** to form a statewide bank holding company with six up-state banks, have stirred the imagination of investors concerning future prospects for these organizations. Also, the proposal of **Bankers Trust** to form a holding company with County Trust Company of White Plains, while vetoed by the New York Superintendent of Banks, may yet be revived.

Other significant developments among the New York banks have been the merger proposals of **First National City Bank** to acquire National Bank of Westchester, of **Chemical Bank New York Trust Company** to acquire Long Island Trust Company and of **Chase Manhattan Bank** to merge with Hempstead Bank of Long Island.

The Chemical and Chase plans have been approved by the New York Superintendent of Banks and now await action by the Federal Reserve's Board of Governors. If this approval is obtained, and if the Department of Justice does not oppose them, a long step toward expansion into the rapidly growing suburbs will have been accomplished by the New York City banks. Some progress already has been made in the opening of new branches in Nassau and Westchester by such banks as First National City, Chase Manhattan and Chemical Bank New York Trust Company. However, the proposed mergers would greatly accelerate the broadening of geographic coverage of the New York banks. If they become effective, the year 1961 may well mark a most important milestone in the history of the New York City banks.

• The proposed new giant bank holding company to be known as the **Morgan New York State Corporation** would be the largest in the country, with total deposits of over $5 billion dollars and with constituent banks in Buffalo, Rochester, Syracuse, Albany, Utica and Binghamton combining with the Morgan Guaranty Trust Company of New York. This would change the pattern of the banking structure of New York State, increasing the effective utilization of both managerial and capital resources of the state's banks.

As a competitor of **Marine Midland Corporation,** now New York State's only major bank holding company, the new banking group would bring more banking services of all types as well as expanded lending ability to the upper New York State area where the rate of deposit growth has been faster than in New York City.

Opposition By Department of Justice

► **The greatest threat to the merger movement among banks throughout the country has arisen from antitrust suits initiated by the Federal Government through the Department of Justice in opposition to several proposed mergers. Invocation of the Sherman Antitrust Act against proposed bank mergers is something new.**

• It has heretofore been accepted that approval by state bank supervisory authorities, by the Board of Governors of the Federal Reserve System and by the Comptroller of the Currency (where national banks are involved) provided sufficient regulatory control over bank mergers. The new theory is based on the premise that bank mergers genrally violate the Sherman Antitrust law if they, in the opinion of the Justice Department, "tend to reduce competition."

The principal test case of the Justice Department's right to intervene in bank mergers is now in the courts in Philadelphia, where the proposed merger between the Philadelphia National Bank and the Girard Trust Corn Exchange Bank is being contested by the Justice Department, even though the merger was approved by the Comptroller of the Currency.

• Two other cases involving court intervention by the Department of Justice to over-rule approvals by the Comptroller of the Currency and the Federal Reserve Board are still pending in the courts, although the banks have won the first important round in defeating injunction applications and in actually effecting their mergers. One of these cases is in Chicago where **Continental Illinois National Bank and Trust Company** recently merged with City National Bank and Trust Company. The other case is in New York where **Manufacturers Trust Company** and the **Hanover Bank** achieved their merger despite a last minute attempt by Justice Department lawyers to halt it on the grounds that the merger might produce a "tendency toward lessening of competition."

• The conflict between two agencies of the government on the effect of a merger on banking competition is found in the Manufacturers-Hanover case. Here the Board of Governors of the Federal Reserve System approved the merger because it would increase competition. The obviously less qualified lawyers of the Justice Department (men with legal backgrounds but lacking the banking experience of members of the Federal Reserve Board) found that the merger would reduce competition.

• The beneficial effect on competition of the movement of New York City banks into the suburban areas around the city was illustrated recently when Franklin National Bank, the largest of the Long Island banks, reduced its interest rates on instalment loans to match the rates charged on such loans by the major New York City banks which are now moving into the Long Island area.

Efforts To Solve Various Banking Problems

In addition to the legal problems created by the law suits brought by the Department of Justice, the banks have had to contend with a number of other problems, chiefly operational in nature. Included among these are:

• The tendency of large corporations to reduce their deposits in order to obtain an interest yield by investing in Treasury bills.

• The need to adopt more liberal interest payment plans on savings accounts in order to meet the competition from other banks and from savings and loan associations. *(Please turn to page 208)*

TEXTILE COMPANIES GET "BREAK" FROM THE GOVERNMENT

By JAMES A. NEWMAN

A Rare and First-Rate Story on . . .

- **All-round significance of concessions on depreciation to the various producers of textile fabrics**
- **What possibilities, if any, for textile machinery makers?**
- **The bleak record of growth for the textile industry and the reasons therefor — and now what prospects for the future?**
- **Outlook for the individual companies — those in the best position — where static — where declining**

A NEW tax concession offered to the textile industry in the form of increased depreciation apparently has come at a time when the industry is just recovering from another difficult business cycle and when textile machinery producers are offering new technological developments. Thus, this timely plan should have some important effects upon both the textile industry and machinery and machine tool producers who are hopeful that such a proposal will be reflective of a new attitude for their equipment as well.

The New Depreciation Schedule

According to the Internal Revenue Service, textile machinery depreciation schedules will be changed from a 25 year life to a 15 year life and in some cases 12 years. The added cash flow that will result from a heavier depreciation write-off will of course result in tax savings equal to one half of the new depreciation. It is hoped that this tax savings will spur the modernization program already underway in the industry. Leading experts have greeted the new plan with enthusiasm predicting great changes through automation.

Industry has long favored heavier depreciation schedules while the New Administration has favored tax credits on new capital spending. The Government proposal offers a compromise which includes a flat 8% credit for all capital outlays plus a revised depreciation schedule. If these plans are carried through to most industries then the effect would be to:

1. Reduce the cost of new capital equipment
2. Increase corporate cash flow
3. Increase capital spending and spur plant modernization

Textile Machinery

One of the most difficult problems facing textile machinery producers has been their inability to sell new textile innovations to their very cyclical customers. Thus, it has been estimated that over 75% of the textile machinery in use today is over 10 years old with a great deal of that total over 25 years old. With an unusually high percentage of obsolescent machinery in operation there is a large demand or need for new equipment. This demand exists despite the fact that important technological developments have been offered and in part accepted by the textile industry. Draper with its new shuttleless loom and Leesona with its Unifil loom winder are examples of the more successful products.

In each instance however machinery makers have been able to enjoy only temporary prosperity and earnings have been falling from peak 1960 levels. Other textile producers have sought to diversify in order to reduce the cyclical impact of the textile industry on their business. Crompton and Knowles, the leading producer of box multiple shuttle looms, has taken an important interest in dyes, chemicals and packaging machinery. Whitin, the leading producer of preparatory and spinning equipment has acquired a stake in the printing machinery business through its wholly owned subsidiary American Type Founders Co. And finally, Leesona, has been expending considerable sums of money on Leesona-Moos division which is engaged in electronics research.

► The new depreciation program of course will be helpful to these companies by reducing the effective prices of their products and by stimulating purchases of equipment which should have been bought several years ago. For 1961-62, however, most capital budgets are set and with long lead times common in the industry, it is doubtful that the impact of new spending will be immediate. Therefore, we would not be too anxious to buy machinery shares on this recent wave of enthusiasm shown by investors.

The Broad Advances in Textile Manufacturing

The textile industry is constantly changing, both geographically and in the development of new fibers, blends and uses. The consumer has received the benefits of increased efficiency and more and better fabrics. All this would indicate a vigorous growing industry, but statistics show that the industry is facing hard times ahead, perhaps harder and hungrier than recent memory can be forced to recall, unless the government takes even more positive action than that recently announced.

• New synthetic fabrics have brought about a decline in the use of historical fibers, i.e., cotton and wool, linen and silk. It is even reasonable to assume that rayon, the oldest of the synthetics, would suffer at the hands of the new "miracle" fibers. But it will come as a surprise to find that per capita consumption of all textiles has been declining in the United States. For example, average per capita consumption in 1953-54 was about 37.8 pounds, while in 1960 it was about 36.1 pounds. There are many long-term reasons for this decline; paper and plastic products have made an impact on cloth consumption; lighter-weight, longer-wearing fabrics have been developed; and our mass exodus to Suburbia has brought about demand for more casual and durable styles of clothing.

Reasons for Bleak Growth Position

In 1953 the Index of Textile Mill Activity by the Federal Reserve stood at 110, in 1960 the index had risen only to 121 for an increase of 10%. In 1953 the index for all manufacturing was 127.2 and had, by 1960, increased 29% to 164. Thus, the industry has been hard pressed to show any growth. Behind the figures lie a story that is rather bleak. As mentioned above, per capita consumption has decreased and total consumption has remained static.

Following World War II the taxes this industry and others paid to the government in part went to help re-establish industry in the war ravaged nations. The story is, of course, well-known. Starting from nothing, U.S. dollars, acquired at no cost, helped purchase the latest in machinery and American technical know-how. Lower labor costs, highly efficient plants, the latest in machinery, favorable tariff rates each contributed to reconstruct, among others, a thriving textile industry abroad which can produce as much as our own industry at considerably lower prices. And looking to the future, we are now determined to help the underdeveloped nations. It should be pointed out that one of the first industries to be established in a new economy is a textile industry, and once having helped these underdeveloped nations we are more or less obligated to give them a "most favored nation" tariff treatment.

• This *intense competition* has not only reduced our markets, but put prices under severe pressure. Using the 1947-49 period as basis 100, the index of Textile Wholesale Prices indicates that in March, 1961, prices were 94.7 of the 1947-49 level. A year earlier, the index stood at 96.3%. Going back even further, the 1953 index showed a price level of 97.2%.

The Diversified Companies

Lowenstein—While sales have trended upward, earnings have been affected by the cyclical supply/demand factor and by changes in raw material costs and keen competition. The company processes raw cotton and synthetic fibers, concentrating sales to manufacturers of apparel, handkerchiefs and household articles. The dividend was reduced earlier this year in line with the lower earnings, but can be expected to be increased as the earnings pick up. The company also sells finished goods such as percales, gabardines under well known brand names. In 1960, the company entered the glass fabrics field and formed factoring subsidiaries. Anticipated recovery should benefit the company but appreciation potential is limited to modest cyclical recovery.

J. P. Stevens—Earnings have been more stable and have shown one of the best long-term growth records in the industry. Stevens is one of the largest and most diversified textile manufacturers. The company also enjoys a large solid position as selling agent for other textile mills, and does a large factoring business. The company has been employing more effective cost control methods but, obviously, is still tied to the basic textile cycle. Stevens recently acquired a stock interest in a French producer of glass fibers and synthetic fabrics giving it entrance into the Common Market.

Although earnings will be greatly lower than last year, the dividend should be maintained, especially with higher earnings in prospect for the next year, and affords an attractive yield at present prices.

Leading Textile Companies

	Net Working Capital 1959 (Millions)	Net Working Capital 1960 (Millions)	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	—1st 9 Months— Earnings Per Share 1960	—1st 9 Months— Earnings Per Share 1961	Indic. 1961 Div. Per Share*	Recent Price	Div. Yield	Price Range 1960-61
American Enka Corp.	$14.9	$24.6	$4.31	$.51	$6.64	$.36	$2.38	$.80	38	2.1%	39¾-17⅜
American Viscose	79.6	71.1	2.98	1.45	4.74	.90	1.04	2.00	57	3.5	63 -32⅞
Beaunit Mills	31.4	32.7	3.12	1.60	4.76	.51[2]	.35[2]	1.00	22	4.5	25⅜-15⅛
Bigelow-Sanford, Inc.	32.2	33.5	1.73	1.28	3.63	.93[2]	.81[2]	.80	19	4.2	21⅝-11¾
Burlington Industries	235.3	260.1	2.72	2.81	5.04	2.31[3]	1.27[3]	.80	21	3.8	24' -16⅜
Cannon Mills	103.0	108.7	5.04	6.49	8.17	2.73[2]	2.70[2]	3.00	73	2.7	83 -55
Celanese Corp.	80.9	85.9	2.44	2.07	5.13	1.05[2]	.83[2]	1.20	35	3.4	40⅜-21
Cone Mills	64.4	64.6	1.47	1.03	2.46	.81[2]	.34[2]	.80	14	5.7	17⅜- 8¼
Dan River Mills	65.4	62.1	1.81	1.60	3.07	.81[2]	.52[2]	.80	14	5.7	15¾-12¼
Firth Carpet	5.9	4.0	1.01	d3.36	—	d.48[2]	d1.72[2]	—	7	—	13⅞- 6⅛
Lowenstein (M.)	105.3	105.7	1.69	1.81	3.66	1.36[2]	.34[2]	.60	14	4.2	20¼-14'
Mohasco Industries	41.4	36.5	3.03	.87	1.72	.46[2]	.23[2]	.40	10	4.0	15¼- 7⅜
Pepperell Mfg.	28.7	29.9	7.19[1]	6.62[1]	10.54	N.A.	N.A.	4.00	84	4.7	85' -60
Reeves Bros., Inc.	17.5	16.4	1.94[1]	.20[1]	1.66	.05[5]	N.A.	.50	20	2.5	28½-15½
Stevens (J. P.) & Co.	144.0	144.8	4.52	3.65	6.46	2.92[4]	1.44[4]	1.50	32	4.6	33½-22¾
United Merch. & Mfg.	116.7	144.0	2.41[1]	1.63[1]	2.73	N.A.	N.A.	1.00	22	4.5	24¼-16¼

Textile Machinery Manufacturers

	Net Working Capital 1959 (Millions)	Net Working Capital 1960 (Millions)	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	—1st 9 Months— Earnings Per Share 1960	—1st 9 Months— Earnings Per Share 1961	Indic. 1961 Div. Per Share*	Recent Price	Div. Yield	Price Range 1960-61
Crompton & Knowles Corp.	11.6	12.7	1.72	2.61	3.42	1.57[2]	1.60[2]	1.00	30	3.3	38¾-16
Draper Corp.	21.9	23.0	1.84	2.82	4.52	1.61[2]	1.39[2]	1.40	36	3.8	37½-23¼
Leesona Corp.	9.8	9.6	1.77	3.11	3.85	1.66[2]	.98[2]	.50	34	1.4	63¼-31
Whitin Machine Works	20.2	21.9	.83	5.63	7.77	3.56[2]	1.20[2]	1.00	28	3.5	37¼-20¾

*—Based on latest dividend rates.
d—Deficit.
N.A.—Not available.

1—Years ended 6/30/1960 and 1961.
2—First 6 months.
3—9 months ended June 30.

4—9 months ended July 31.
5—1st fiscal quarter ended Sept. 30.

TEXTILE COMPANIES

American Enka: Large factor in conventional rayons increasing stake in nylon. Earnings are improving but will not match cyclical peaks of former years. Readjustment will take time. **C3**

American Viscose: Largest producer of rayon and acetate in United States. Other products will be important to offset decline in rayon. High liquid asset value in Monsanto stock (13.2%). Company has no debt. **B3**

Beaunit Mills: Important rayon producer for textile yarn, moving into polyester and polypropylene, not as dependent on tires (only 18% of business). Recovering with general textile cycle. **C3**

Bigelow Sanford: Second largest carpet maker has been diversifying. Plant relocation could help but earnings are still erratic. Crestliner Boat division showed some growth although 1960-61 was poor year for industry. **C3**

Burlington Inds.: Leading company in the industry reflects all problems, shows slightly more stable earnings than most. Main appeal of income has been hurt by an erratic dividend policy, which could improve again in 1962. **B3**

Cannon Mills: Important trade name for linens and towels, relatively stable earnings, steady dividend. Company faces delisting from NYSE for not filing proxy information. **B2**

Celanese: Largest producer of acetate fibers building large chemical and plastics capacity. 40% of business in non-textiles showing better growth. Deserves better appraisal than group. **B1**

Cone Mills: Engaged in active diversification away from cotton into polyurethane foam, chemicals and dyes. Earnings have shown weakness, new efforts should help. **C4**

Dan River: Important in yarn dyed goods, also factoring and commission sales. Outlook improved by recent price increase. Improved earnings still some time away. **C3**

Firth Carpet: A major producer with an erratic record. Plans to merge with Mohasco. 1½ Firth for 1 Mohasco. Stockholder group trying to block the deal. **C4**

Lowenstein: Increasing sales volume, but cyclical factors have affected volume. Company is a processor of cotton and synthetics. Dividend was cut this year on poor earnings. Could improve with the cycle. **C3**

Mohasco: Largest carpet maker. Tax-loss carry forward has been exhausted which will restrict already declining 1961 earnings. New materials including acoustical fabrics have interesting potential. Merger developments are in progress (see Firth Carpet). **C4**

Pepperell Mfg.: One of the more successful linen producers. Good management effected cost controls and maintained earnings. Steady dividend is most attractive feature of this stock. **B2**

Reeves Bros.: Has been diversifying since 1953 and is now engaged in polyethelene and polypropylene in addition to textile fabrics. New laminated fabrics could become important. Earnings will recover with cycle. **C3**

J. P. Stevens: Perhaps the best of the diversified producers. Although subject to wide swings in earnings, the company has maintained dividends affording an attractive yield. **B3**

United Merchants and Mfrs: Owns the huge Robert Hall retail organization in addition to factoring plastics and textiles. Earnings have shown some stability and dividends appear secure. **B2**

TEXTILE MACHINERY MANUFACTURERS

Crompton and Knowles: Has diversified in packaging machinery which has helped to cushion cyclical swings. Textile machinery business has held up through constant machine improvement. **B2**

Draper: Has had tremendous success with its new shuttleless loom. Machine to handle fine fabrics, however, is still some time away and coarse goods are already reaching machine saturation. 1961 will show an earnings decline. **B4**

Leesona: Has received good response to new Unifil loom winder. Backlog still high but earnings tapering off. Research activities may have effect on long term future earning power but will not stem the decline in 1961. **C4**

Whitin Machine: One of the largest producers in the textile machinery. Printing machinery also important. Earnings are slowing from higher 1960 levels. Backlog still strong. **B4**

RATINGS: A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

United Merchants—Factoring and Finance operations, plus the Robert Hall chain of apparel stores, have reached a point where they now contribute about one half of UMM's earnings. The plastics division, and entry into the polyester resin industry will further help to diversify and stabilize earnings.

Being an integrated company, the prospects both for growth and some defensive qualities are attractive although overall results will still be dominated by cycles. With the dividend well maintained, long term commitments are worthwhile.

Reeves Bros., an integrated textile manufacturer, has been following a diversification program since 1953 and now is in microporous fabrics, polyethylene and polypropylene fibers and coated products. Reeves earnings have been particularly subject to lower prices for cotton textiles, however, better market conditions should begin to appear soon, and products recently added should begin to carry through to net income.

Rayon and Synthetics

Cyclical problems are also evident in the rayon and acetate business where new synthetics have made substantial inroads. Originally rayon replaced cotton in auto tires and silk in fabrics. As an innovation this synthetic grew to become a major segment of the textile industry until new synthetics became available after the war. Nylon for example has made significant penetration in the replacement tire field while various brand name fibers have become popular in the fabric field. Consequently, rayon producers have spent sparingly on new capacity or machinery while increasing outlays in new areas such as polypropylene.

In the major companies, we believe that a long period of readjustment lies ahead. Each of the leading rayon producers are seeking new markets for new products but the trend away from rayon will cause at best a standstill until new products begin to dominate the picture.

For the investor, therefore, the rayon industry offers at best only cyclical opportunities for profits and future growth only after current problems are overcome.

American Enka, large producer of rayon, and an increasing factor in the production of nylon, necessary to offset the problems of rayons, has recently begun to enjoy sharply improved earnings. These gains are primarily due to better markets for rayon textile yarns, an improving outlook for the auto industry with related increased rayon tire demand, and a better price structure for its products. Although earnings still have not returned to former levels of satisfactory return on investment, the outlook is improved as new products are being developed to utilize present capabilities and equipment. However, it will involve a considerable period of time before the full readjustment to new types of materials has been completed.

American Viscose, the largest producer of rayon in the United States, and also one of the leading acetate producers, is moving into other synthetics to offset the decline in rayon consumption. Introduction of "Avicel"—a new microcrystalline cellulose that is a non-caloric bulk food substitute may assist earnings in the future. Jointly owned affiliates with other companies and 13.2% ownership in Monsanto Chemical will further contribute to earnings.

With no long-term debt, 1960 current ratio of 4.8-1, net working capital in excess of $71 million, cash flow of about $3.30 per share, and further prospects of the company repurchasing its own shares in the open market, the long-term potential appears better than the industry average.

Beaunit Mills, another important producer of rayon textile yarn, has been experiencing a decline in operations, although the company is now moving into the newer polyester and polypropylene fibers, but a long period of readjustment lies ahead. Improvement in the textile cycle should benefit earnings this year as both rayon and conventional fiber prices have been showing greater relative strength than in recent months. Only 18% of sales comes from rayon tire yarns so Beaunit is not as heavily dependent on the auto cycle. The company is working on the development of a polyester tire cord and expects to be able to determine within a few months its feasability. It is, however, expected to compete favorably with nylon, but at this early stage must be regarded as a speculation.

Celanese, largest producer of acetate fibers, has been increasing in importance the non-textile sales, which now account for about 40% of total sales of the company. Earnings have shown better growth than most of the others in the industry, but the 1960-61 economic slump affected earnings. As chemicals assume a greater percentage of sales the stock will sell more in line with the chemical equities, and higher multiples than those accorded the textile industry will be warranted.

The Cotton Manufacturers.—Athough sales in the cotton industry have remained static in the past decade there is considerable credit due the industry which has done its best to maintain cotton as an important fabric. Despite continued penetration by synthetic fibers, cotton producers have managed to hold on to a large part of their market. Government price supports for domestic producers has kept cotton prices high in the face of increasing foreign competition thereby causing an additional burden. As a result it is not likely that cotton manufacturers will be candidates for a wave of modernization. The added depreciation allowance offered will do nothing to correct the basic problems caused by Government price supports.

Cannon Mills, well known for its sheets, pillowcases and towels under the Cannon label has demonstrated relatively stable earnings with a mild long term uptrend, a fact which sets it apart from its competitors. Prices have recently been increased on a number of lines, which will offset the increased costs brought about by an increase in the cotton support price and by the recent passage of the new minimum wage law.

Cone Mills, also a well known name in the cotton textile field, has been following an active diversification program through new ventures in polyurethand foam, and chemicals and dyes. Doubtless, the company will continue to seek new approaches to profits in an effort to end the *(Please turn to page 209)*

OUTLOOK FOR FINANCE INDUSTRY UNDER TIGHTENING CREDIT

— And the position of the Individual Companies in the three Categories

By JONATHAN PIERCE

***NOTE:** Like bank stocks, the segment of the finance industry known as the finance companies also has enjoyed substantial gains in market quotations this year. Mergers, acquisitions, stock splits and stock dividends have been numerous in this field to date in 1961. With the outlook for substantial improvement ahead in 1962, and with price-earnings ratios still at or under 20 times, this group continues to hold attraction for investors, relatively good values depending on developments and the outlook for credit and interest rates. This study spotlights the companies in the best position.—EDITOR*

THE finance industry is not one industry. Rather, it is a composite of three closely knit industrial groups: the sales finance industry (mainly auto financing), the personal loan industry and the commercial finance industry. Each possesses its own growth potential, its own problems, and its own opportunities for investment. Thus, to judge the investment worth of any individual issue on the basis of a comparison to the composite industry group is an error. This point is easily illustrated.

In 1955 new extensions of installment credit rose $8 billion above the previous year and amounted to 15.2% of total personal consumption expenditures; in 1959 new expenditures were $7.6 billion above the previous year equalling 15.6% of consumer purchases. Composite industry figures appear alike. They are, however, significantly different.

The majority of the 1955 expansion—when new passenger car registrations totaled 7.2 million—was in automobile paper. In 1959—a 6 million auto year

—about 56% of the total increase was in types of loans other than automobile paper.

Obviously, the value of the shareholders' equity in the sales (automobile) finance companies in 1955 and 1959 was quite different. An examination of 1961 composite industry figures reveals further structural changes.

Scanning the multitude of publicly-owned finance companies, we find some companies that are involved solely in sales financing or solely in personal loans. Most major companies outside the commercial finance area, however, are involved in both forms of consumer credit—sales financing and personal loans. Thus, in analyzing the finance operations of a finance company we separate sales financing from personal loans to determine the effective contribution of each to the company's growth and earnings, but we shall discuss them jointly as we begin an examination of consumer credit.

Consumer Credit

What has happened to the earnings of the consumer credit finance companies this year when people stopped expanding their credit lines?

Why, if consumer credit varies with the business cycle, do not the earnings of consumer credit companies exhibit cyclical patterns?

The truest reflection, in any industry, of economic conditions at the consumer level is found in the consumer credit industries. In fact, the key determinants of their activities are the economic factors of employment levels, attitudes toward saving and consumption, interest rates, and levels of personal income.

From February, 1961 (the base of the current recovery) to August, 1961, consumer credit did not expand, despite new record levels for disposable income. In fact, as late as July, installment consumer credit—the major portion of all consumer credit—continued to contract.

• Why it did contract in the 1961 February-August period may be explained by three factors:

1. The high unemployment rate and the lack of job security caused many individuals to repay their debts rather than expand them.
2. Balance-of-payment problems forced the government to maintain artificially high money rates. Really "cheap money" designed to stimulate the economy never actually appeared.
3. Defense spending and transfer payments injected money into the economy only in specific financial and geographic areas. Thus, while total disposable income rose, no substantial increase occurred in the disposable income of the average family unit.

These reasons for the lag in generation of new debt are mainly particular to this business cycle; in recovery phases of previous cycles, other factors discouraged consumer credit expansion. In fact, in almost all business cycles for which consumer credit expansion and contraction have been measured, changes in installment consumer credit (four-fifths of all consumer credit) lagged behind changes in general economic conditions by a median of +4.5 months. Moreover, net additions to consumer installment credit are so consistent in their moderate lag, that they are used as a moderate-lag indicator of business conditions.

The above observation appears to contradict the relatively defensive nature of the stocks of the consumer credit industries, for it implies that companies which react parallel to the business cycle are vulnerable to cyclical fluctuations in earnings and rate of growth. *There is no contradiction, however, because of time differentials and diversification of income sources.*

Judging Values of Finance Companies

Time differentials relate to the operational characteristics of the consumer credit industries and, in a lesser degree, to the savings and loan group. There always exists a time lag separating total volume of loans purchased in a given year and the maturities of these loans. Thus, the high volume of loans made in a good year will, in terms of repayments, to a certain degree sustain earnings. Similarly, companies hope that loan volume will, as a result of improved economic conditions, pick up by the time repayments have petered out. Thus, the business cycle can work for consumer credit companies, rather than against them.

The appreciation of finance company shares in the market is not, however, based on anticipated increases in loan volume. Rather, it is based on anticipated increases in earnings generated from increased or anticipated loan volume, and from other sources of income extraneous to the company's financing operations. It is from these secondary sources of income that companies seek to generate increased earnings, and thus add to their defensive nature and to the growth image of their operations.

As these outside sources of income have been discussed in detail in an earlier article (see Magazine of Wall Street, March 11, 1961), they are not reviewed here. Two major additions to that article, however, do bear mention.

— **First,** in the course of this year the emphasis on diversification has shifted from internal generation of insurance, additional areas of credit servicing, and new office facilities, to expansion by acquisition and merger, whereby many smaller companies (often privately owned) are being absorbed.

— **Second,** the increased earnings from diversification have tended to hide the erosion of profit margins, and the deterioration of the growth *rate* in assets, cash position, and loan volume in the financing operations of the consumer credit industries.

— Again, what is true in the aggregate need not be true for individual companies. Thus, each company must be evaluated on its own merit and relative to its own industry group in order to establish its investment worth.

Sales Financing

Extensions of automobile credit (roughly 75% of all sales financing by finance companies) fell 13% between last year's and this year's first quarters, almost to the levels reached in the 1958 recession. At the same time the business recession caused a rise in repossessions resulting from a badly depressed used car market. From March-June 1961, the situation improved noticeably. The final quarters of this year, however, will again show deterioration

Statistical Data on Finance Companies

	1959 Earnings Per Share	1959 Div. Per Share	1960 Earnings Per Share	1960 Div. Per Share	Interim Earnings Per Share 1960	Interim Earnings Per Share 1961	Indicated 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield
AUTOMOBILE FINANCING:										
Associates Investment Co.	$5.05	$2.60	$4.46	$2.60	$2.23[5]	$2.12[5]	$2.60	76¼-49¼	75	3.4%
C.I.T. Financial Corp.	4.57	2.50	4.67	2.60	1.54[5]	1.68[5]	2.80	97 -49⅝	90	3.1
General Acceptance Corp.	1.45	1.00	1.46	1.00[1]	.61[5]	.66[5]	1.00[1]	26¼-17	23	4.3
General Contract Finance Corp.	.65	.30	.32	.40	.25[5]	.14[5]	.20[1]	8⅛- 5⅛	6	3.3
General Finance Corp.	2.69	1.20	2.87	1.30	1.40[5]	1.25[5]	1.40	49 -30⅝	47	2.9
Pacific Finance Corp. (Calif.)	4.77	2.45	[2]	[2]	[2]	[2]	[2]	— —	[2]	[2]
COMMERCIAL FINANCING:										
Commercial Credit Co.	2.74	1.40	2.83	1.40	1.36[5]	1.37[5]	1.60	54½-27⅝	52	3.0
Heller (Walter E.) & Co.	2.74	1.25	3.22	1.45	1.54[5]	1.58[5]	1.60	85½-37½	84	1.9
Standard Financial Corp.	.81	.44	.81	.48	.54[6]	.57[6]	.50	18¼- 8⅞	15	3.3
Talcott (James), Inc.	1.60	.69	1.62	.82	.90[5]	.89[5]	.90	57⅜-22⅜	56	1.6
SMALL LOAN:										
American Investment Co. (Ill.)	1.25	1.00	1.37	1.00	.70[5]	.63[5]	1.00	25⅞-17½	24	4.1
Beneficial Finance Co.	2.20	1.00	2.32	1.00[1]	1.16[5]	1.21[5]	1.00	59⅜-22⅜	54	1.8
Budget Finance Plan	.70	.40	1.32	.40	.36[6]	.89[6]	.41[1]	17⅞- 7	16	2.5
Family Finance Corp.	2.36	1.60	2.96[3]	1.60	N.A.	N.A.	1.80[4]	59 -28[4]	54[4]	3.3[4]
Household Finance Corp.	2.42	1.20[1]	2.44	1.20[1]	1.26[5]	1.48[5]	1.20	60½-27	54	2.2
Seaboard Finance Co.	1.47	1.00[1]	1.40	1.00[1]	1.11[6]	.82[6]	1.00	29⅜-20⅛	24	4.1

*—Based on latest dividend rate.
N.A.—Not available.
1—Plus stock.
2—9/11/61 N. Y. S. E. suspended trading in Co.'s stock; Transamerica Corp., now owns majority interest in Pac. Finance Co.
3—Year ended June 30, 1961.
4—Stockholders vote Oct. 17, 1961 on 2 for 1 stock split.
5—First 6 months.
6—First 9 months.

in the extension of automobile credit because of the disruption in automobile production.

In general, the individual issues in the sales financing group reflect the disappointing industry results. The downward trend of **Associates Investment Company** reported earnings since 1957 contrasts sharply with its previous uninterrupted gains in earnings after the end of World War II. Similarly, the growth rate of **C.I.T. Financial** earnings has slowed, averaging 9.5% per annum from 1951 to 1955 and only 3.4% between 1956 and 1960.

► Currently, both companies are seeking to resume an upturn in earnings through diversification —note the current merger discussions between **Associated Investment Company** and **Security Acceptance Corp.,** and C.I.T.'s aggressive entry into machinery and equipment leasing and into the financing of shell homes.

C.I.T. Financial's earnings for the first half of 1961 showed a small gain at $1.68 per share over the $1.54 earned in the first six months of 1960. However, the optimism of the management of the Company concerning next year's prospects is reflected in the recent announcement of a proposed 2 for 1 stock split to be effected next month with an increase in the quarterly dividend rate to 37½¢ per share ($1.50 annually) compared with 70¢ per share on the unsplit shares (equal to a comparable figure of $1.40 annually on the split shares). In addition to automobile financing which accounts for about half of total receivables, this largest independent sales finance company operates substantial financing and factoring operations on a consistently profitable basis. New activities which appear to have excellent future prospects include the financing of sales of "shell" houses, leasing of industrial equipment and extension of activities overseas. The stock is currently selling about 19 times latest earnings.

The small-loan operations of **General Acceptance** will exceed its auto financing in 1961, due to the company's acquisition of Security Credit Corp., and S. W. Coe & Co., this year. In contrast, **Pacific Finance** (ranked as the fourth largest independent auto finance company in the U. S.) was recently taken over by Transamerica Corp. through the exchange of stock. As the lion's share of Transamerica income is derived from its Occidental Life Insurance subsidiary, we shall not discuss the operations of Pacific Finance here.

Commercial Credit Corp.'s diversification has taken the company into many diverse areas of manufacturing. Financing activities account for the major portion of the company's total earnings.

Like C.I.T. Financial Corporation, the earnings of **Commercial Credit Company** showed only a small gain in the first half of 1961 compared with the first six months of 1960. On a per share basis, earnings for the first half of 1961 were $1.37 per share versus $1.36 in the comparable 1960 period. This Company's stock was split in April of this year on a 2 for 1 basis. At present the Company is making an exchange offer to stockholders of City Loan and Savings Company of 372,256 shares of 4½% Convertible Preferred Stock and 372,256 shares of Common Stock on the basis of one common share and one preferred share of Commercial Credit for each 3 shares of City Loan and Savings Company common stock. Commercial Credit Corp. stock, like C.I.T. Financial Corporation, is selling about 19 times earnings for the latest 12-month period.

General Finance, whose *(Please turn to page 207)*

FOR PROFIT AND INCOME

Inside The Market

At this writing, utilities are the star performers in the market, as they have been for some time. The average's net gain on the year to date approximates 30%, against less than 16% each for the industrial and rail averages. In the industrial list, stock groups performing better than the market at this time are mainly baking, dairy products, food brands, farm equipment, coal, office equipment, oils, department stores, food stores, mail order, textiles, tires and tobacco. In the finance field, bank and insurance stocks remain in good demand.

Lagging Groups

Stock group performing worse than the market at this time — in some cases for transient technical reasons, in other for more basic reasons — include aircraft, air transport, aluminum, chemicals, copper, drugs, electrical equipment and appliances, electronics-TV, machine tools, and steel.

Utility Splits

Utility stock splits used to be rather rare. But that was when these issues were regarded mainly as income stocks and price movement of most of them was usually quite moderate. In recent years, it has increasingly been recognized that the utility industry is a growth industry, although individual stocks in it range from slow-growth to fast-growth issues. It is a growth industry mainly because of the host of appliances that have become common in homes within the last generation especially; and because of present competitive gains made by electricity for home heating. Average per-share earnings growth is not spectacular but it exceeds that of the average industrial stock and is far more assured — indeed almost guaranteed — in continuity. More and more of the stocks have risen to levels at which splits become logical. The most recent one is a proposed 3-for-1 division of Pacific Gas & Electric, now around 97. Other possibilities are Central Illinois Public Service, Columbus & Southern Ohio Edison, Consumers Power, Houston Lighting, Illinois Power, Indianapolis Power & Light, Kansas P. & L.,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Chemway Corp.	Quar. Sept. 30	$ .23	$ .11
Detroit Edison Co.	12 mos. Sept. 30	2.71	2.57
Xerox Corp.	Quar. Sept. 30	.38	.19
MacAndrews & Forbes Co.	9 mos. Sept. 30	2.04	1.58
Carolina Power & Light	12 mos. Sept. 30	2.38	2.28
Marine Midland Corp.	9 mos. Sept. 30	1.42	1.36
Bobbie Brooks, Inc.	Quar. July 31	.48	.43
American Enka Corp.	36 weeks Sept. 10	2.38	.36
Ex-Cell-O Corp.	Quar. Aug. 31	.75	.47
Tennessee Gas Transmission	12 mos. Aug. 31	1.43	1.22

and Texas Utilities.

"The Winner!"

In the battle for the cigarette market, the "winner and still heavyweight champion" — as a prizefight announcer would put it — is: Reynolds Tobacco. Growth has not yet slowed. It averaged about 15% a year in profits over five years through 1960. As indicated by the strong showing for the third quarter and the first nine months of 1961, it might be around 17% this year to something like $3.05 to $3.10 for the present split shares against 1960's adjusted $2.60. Aided by a large and highly efficient new plant, annual-rate earnings by the final quarter should exceed $3.40 a share. On a guess-estimate, they might approach $3.60 in 1962—which would mean growth of about 400% in ten years. Dividends have kept pace. Once a staid income stock, the issue is now generally recognized as a growth stock. At 78, it is selling around 25 times earnings, against about 21 times for the general run of industrial stocks. The premium, so measured, is less than 25%. We would say that Reynolds is worth more than 25% more than the average industrial. It comes hard to recommend buying after the issue has risen tremendously from the levels at which it was initially favored here. Suffice it to say it remains an excellent holding — and that a number of institutional funds keep buying it, especially on small price dips.

Strong Stocks

Stocks performing better than the market at this writing include: Bayuk Cigars, Bobbie Brooks, Borden, Consolidation Coal, Continental Can, Diamond National, Dover Corp., Friden, General Finance, Great A. & P., Hercules Powder, Hunt Foods, IBM, Sears Roebuck, Singer Mfg., and U. S. Tobacco.

Valuation

What is any stock worth? In the final analysis, what people think it is worth by "majority vote." More specifically, it depends more on the earnings trend and hoped-for future earnings than any of the other various factors. Where there has been a favorable trend, over-valuation generally persists for some time —perhaps a long time—after the profit uptrend has flattened out or been reversed. A stock can have a wide decline and still be over-valued if formerly good earnings are now poor and falling. Among the popular "growth" stocks of 1954-1959, Outboard Marine had peak earning of $1.76 a share in fiscal 1959 and reached a high of 39⅜, or about 22.3 times earnings. Profit for the fiscal year ended September 30 probably fell to something like $0.60-$0.70 a share. Currently at a new low of 18¼, the valuation is 28 times earnings. With renewal of growth unlikely, what might 1962 or 1963 earnings be? Maybe $1.25-$1.50? What might they be worth, with the stock now classed as a specialty cyclical issue? Maybe 10 times or 12 times? We concluded that at best the stock might be worth about what it is selling for now or somewhat less. This example illustrates the need for alertness and action after growth has halted or has been reversed. Many others could be cited. Quite a few of the issues now sagging to new lows are former "growth" stocks.

A Conservative Buy

American Express is the leading service organization gaining from the growth trend in domestic and foreign travel. Services include the familiar travelers cheques, travel-agency bookings, foreign commercial banking operations and a number of others. The company is cash-rich and derives important income from investments. Earnings, over doubled in the last six years, reached a record $2.03 a share in 1960, up from 1959's $1.91. In line with the established trend, they should be around $2.20 this year. At a $1.20 rate, dividends have about doubled in five years through 1960. The record and travel potentials suggest further profit growth at a rate of 10%-11% annually for an extended time ahead. The stock is now around 54 over the counter, yielding little over 2%. But you will not get good current yield on any growth issue. The valuation is around 25 times earnings, against roughly 21 times for the industrial average. The stock rates as a conservative issue, offering the desirable combination of above-average stability and above-average growth.

Addenda

What the financial community calls a "leading" company is usually a large company. It may or may not be vigorous and growing. Commenting on the liquor industry here a fortnight ago, we noted that American Distilling, one of the smaller companies, had an impressive growth record in this non-growth (or maybe slow-growth) industry. Another is Beam Distilling, one of the oldest in the country, specializing mainly in Kentucky bourbons, with the Beam name still to be found among the directors. Sales have risen steadily for many years, earnings in each of the last eight years for a gain of about 640% over the period. They were $2.15 a share for the fiscal year ended last June 30, up from the prior year's $1.97. The trend suggests $2.30 or so this year. Due to working capital needs, dividends are at a modest $0.07 quarterly. However, there have been frequent stock dividends, including 2% in early October, following 1% each last April and last January. The stock is around 44 in a thin over-counter market. Despite the outstanding record, the valuation is less than 20 times earnings and thus moderately below the average for industrials.

END

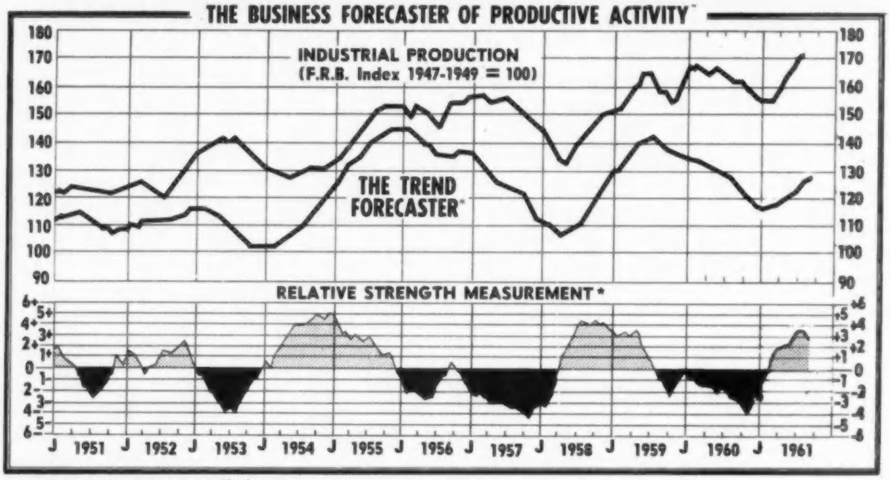
DECREASES SHOW IN RECENT EARNINGS REPORTS

		1961	1960
Mead Corp.	16 weeks Oct. 1	$ .60	$ .70
Minn. Power & Light	12 mos. Sept. 30	2.35	2.42
United Shoe Machinery	Quar. Aug. 31	1.03	1.18
Aro Equipment	Quar. Aug. 31	.32	.42
Glidden Co.	Year Aug. 31	2.78	2.90
Hooker Chemical Corp.	9 mos. Aug. 31	1.16	1.24
Lukens Steel Co.	36 weeks Sept. 9	2.69	3.49
San Diego Gas & Elec.	12 mos. Aug. 31	1.52	1.91
Shamrock Oil & Gas	9 mos. Aug. 31	1.47	1.72
Atlantic Coast Line R.R.	8 mos. Aug. 31	1.95	2.71

the Business A

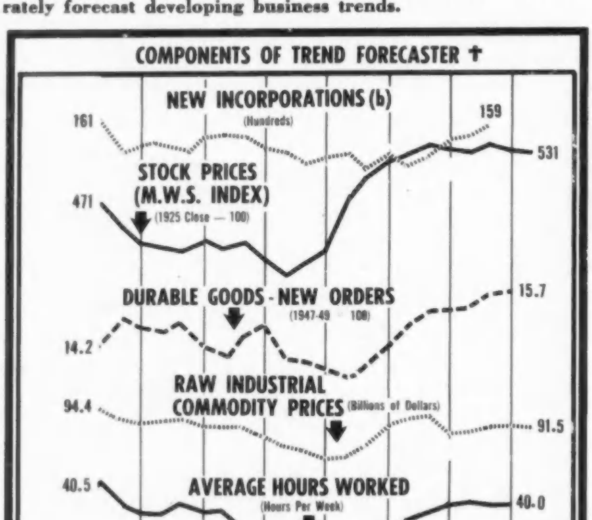
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a sustained advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually indicates that an important contraction is in the making.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The components of the Trend Forecaster appear to have lost some of their steam in September, although this may have been due in good part to the effects of temporary factors, such as the auto strike and Hurricane Carla. In the latest period for which data are available, three of the components declined from levels of the previous month, four advanced and one was unchanged. Advancing indicators included new orders, housing starts and new incorporations. Liabilities of business failures (inverted) were improved after adjustment for special factors. Declines were noted for stock prices, nonresidential construction contract awards, and raw industrial commodity prices. Hours worked remained unchanged on the basis of our estimates.

Further declines in some of the indicators affected their intermediate trend, and as a result the Relative Strength Measure eased off to the plus 2.5 level, from its high of plus 3.6. At its current level it is still forecasting further recovery at least into Spring, but at a more leisurely pace than previously indicated.

Analyst

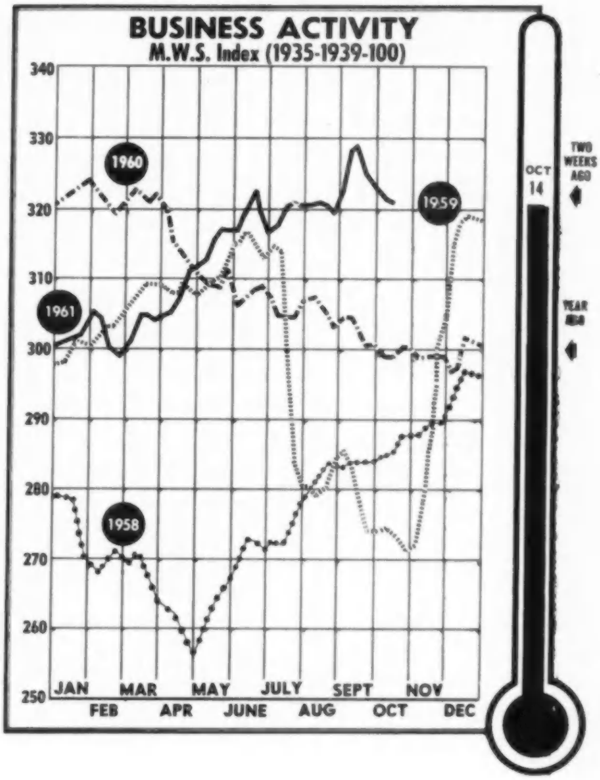
CONCLUSIONS IN BRIEF

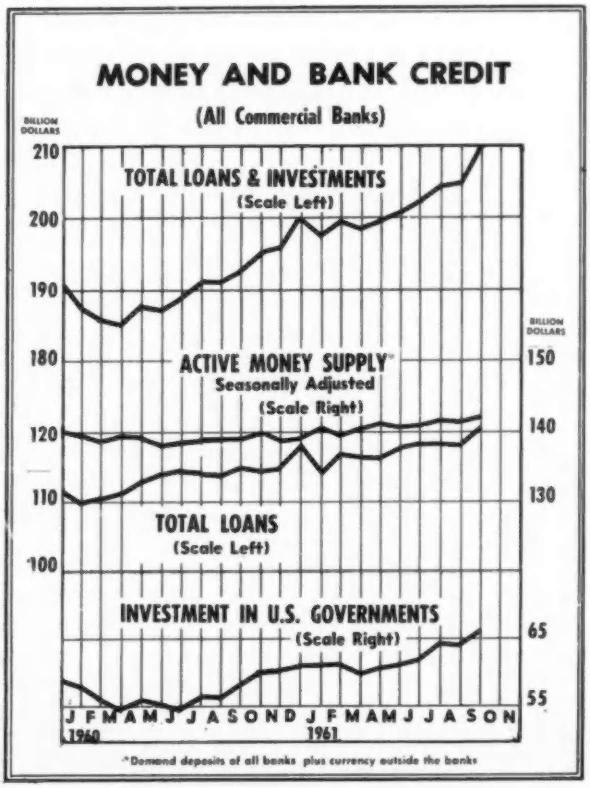
PRODUCTION — Output hit by auto strikes and hurricane in September. Some improvement setting in now, with strength evident in autos, paperboard and electric power output. Further moderate gains in overall production to be expected in the months ahead but no strong boom.

TRADE — Some signs of reviving consumer interest are now becoming visible in retail markets, with autos, appliances and soft goods all reflecting increased demand. Gains are partly seasonal, however, and more data on spending trends will be required before it can be determined whether the public is coming back into the market in a big way.

MONEY & CREDIT — Corporate bond prices declined a bit in recent weeks, mainly as the result of a bigger supply of new issues. The gold outflow from this country continues to worry bondholders as it could eventually force the Treasury to abandon its easy money policy.

COMMODITIES — Prices still stagnant, with producers waiting for demand to catch up with increased output. Cost of living still rising, but broad wholesale price indices remain in the narrow range that has now existed for several years.





BUSINESS activity has slowed down a bit in recent weeks and this may have served a constructive purpose in restoring a sense of proportion to some hitherto over-sanguine observers of the business scene.

The dip which took place in September was concentrated in production and hours worked, and was in good part the result of such extraneous factors as labor troubles in the auto industry and interruptions in plant schedules stemming from Hurricane Carla. If these restraining developments had not taken place, September results would clearly have been better. However, it is also evident that the pace of recovery has slowed and that no sharp improvement has taken place thus far in October. This does not mean that the upturn has reached a peak, although it does reinforce the probability that further advance will be on a more moderate scale than in the earlier months of the recovery.

Despite the recent hesitation in the economy, underlying prospects are far from discouraging, although it still remains to be seen whether certain key sectors, namely consumer spending and spending for capital expansion, will contribute fully to the recovery. On the constructive side at present, we find that manufacturers' new orders for durables rose again in September, according to preliminary estimates of the Commerce Department, reaching a new high since June, 1959. Although manufacturers' shipments for the month were lower, this resulted in a sharp rise in order backlogs, thus portending

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	169	171	162
Durable Goods Mfr.	1947-'9-100	Sept.	171	175	166
Nondurable Goods Mfr.	1947-'9-100	Sept.	170	169	159
Mining	1947-'9-100	Sept.	129	129	127
RETAIL SALES*	$ Billions	Sept.	18.2	18.2	18.1
Durable Goods	$ Billions	Sept.	5.5	5.5	5.8
Nondurable Goods	$ Billions	Sept.	12.6	12.7	12.3
Dep't Store Sales	1947-'9-100	Sept.	150	150	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	Aug.	32.1	31.3	30.0
Durable Goods	$ Billions	Aug.	15.6	15.0	14.4
Nondurable Goods	$ Billions	Aug.	16.6	16.3	15.6
Shipments*	$ Billions	Aug.	31.6	31.2	30.1
Durable Goods	$ Billions	Aug.	15.2	14.8	14.4
Nondurable Goods	$ Billions	Aug.	16.4	16.4	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Aug.	92.1	91.8	93.3
Manufacturers'	$ Billions	Aug.	54.0	53.5	55.0
Wholesalers'	$ Billions	Aug.	13.6	13.6	13.1
Retailers'	$ Billions	Aug.	24.5	24.7	25.2
Dept. Store Stocks	1947-'9-100	Aug.	169	166	169
CONSTRUCTION TOTAL—†	$ Billions	Sept.	58.4	57.8	55.6
Private	$ Billions	Sept.	41.4	41.2	39.3
Residential	$ Billions	Sept.	23.4	23.3	22.1
All Other	$ Billions	Sept.	18.0	17.9	17.2
Housing Starts*—a	Thousands	Sept.	1360	1321	1089
Contract Awards, Residential—b	$ Millions	Sept.	1620	1589	1277
All Other—b	$ Millions	Sept.	1620	1954	1842
EMPLOYMENT					
Total Civilian	Millions	Sept.	67.0	68.5	67.8
Non-farm*	Millions	Sept.	53.4	53.4	53.0
Government*	Millions	Sept.	8.9	8.8	8.5
Trade*	Millions	Sept.	11.6	11.7	11.7
Factory*	Millions	Sept.	12.0	11.9	12.2
Hours Worked*	Hours	Sept.	39.3	40.0	39.1
Hourly Earnings	Dollars	Sept.	2.34	2.34	2.30
Weekly Earnings	Dollars	Sept.	92.66	93.83	91.08
PERSONAL INCOME*	$ Billions	Sept.	420	419	406
Wages & Salaries	$ Billions	Sept.	283	283	273
Proprietors' Incomes	$ Billions	Sept.	61	61	60
Interest & Dividends	$ Billions	Sept.	42	42	41
Transfer Payments	$ Billions	Sept.	33	33	30
Farm Income	$ Billions	Sept.	17	17	17
CONSUMER PRICES	1947-'9-100	Sept.	128.3	128.0	126.8
Food	1947-'9-100	Sept.	121.1	121.2	120.2
Clothing	1947-'9-100	Sept.	111.1	109.9	110.6
Housing	1947-'9-100	Sept.	132.6	132.3	132.0
MONEY & CREDIT					
Active Money Supply*—u	$ Billions	Sept.	142.2	141.3	138.5
Bank Debits*—g	$ Billions	Sept.	100.2	102.4	96.2
Business Loans Outstanding—c, u	$ Billions	Sept.	31.9	31.5	31.7
Instalment Credit Extended*—u	$ Billions	Aug.	4.1	4.0	4.1
Instalment Credit Repaid*—u	$ Billions	Aug.	4.1	4.0	3.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	6.4	3.0	6.5
Budget Expenditures	$ Billions	Aug.	7.6	6:3	6.8
Defense Expenditures	$ Billions	Aug.	4.1	3.4	4.1
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.6)	(3.3)	(3.4)

PRESENT POSITION AND OUTLOOK

a higher rate of output and shipments in coming months. The auto industry, which contributed to the recent slow-down in output, will be a plus factor, at least for the near term. Output of the new models is now beginning to rise sharply and will remain at a high level for some months, as manufacturers strive to rebuild dealers' stocks to an adequate level. Increased production of cars will stimulate supplier industries and should result in a pickup in the presently becalmed steel industry. Improvement in these important areas will stimulate employment and add to personal income, which is already at record levels.

If gains in these various fields are to be sustained, however, improved consumer demand will be required. Some signs of such improvement have already begun to appear, including a recent gain in appliance sales, a record level of demand for soft goods and an increase in retail sales of autos. Although these gains have not lasted long enough to give us complete assurance of a change in consumer attitudes, they are certainly a step in the right direction.

Another area that still has to prove itself, is spending for new plant and equipment. Businessmen have previously reported that they planned appreciable increases in capital outlays in the second half of this year, but corporate appropriations for this purpose have risen only half-heartedly and actual expenditures do not appear to be up to expectations. The picture may change, however, if Administration moves to revitalize capital expansion bear fruit. The textile industry has already been granted accelerated depreciation on machinery and equipment and the industry's leaders report they are planning sharp increases in capital spending as a result. Treasury Secretary Dillon has promised similar changes in depreciation rules for industry in general by Spring and the Administration also seems determined to press its legislative program for tax credits to spur equipment purchases. These reforms, if realized, could provide strong stimulus for industrial expansion and modernization, although their efficacy may also

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter II	1961 Quarter I	1960 Quarter IV	1960 Quarter II
GROSS NATIONAL PRODUCT	516.1	500.8	504.5	506.4
Personal Consumption	336.1	320.7	332.3	329.9
Private Domestic Invest.	68.8	59.8	65.6	74.6
Net Exports	3.9	5.3	5.1	2.3
Government Purchases	107.3	105.0	101.6	99.6
Federal	56.6	54.7	53.0	52.9
State & Local	50.6	50.3	48.6	46.8
PERSONAL INCOME	413.2	404.7	405.5	403.0
Tax & Nontax Payments	51.5	50.4	50.6	50.3
Disposable Income	361.8	354.3	354.9	352.7
Consumption Expenditures	336.1	330.7	332.3	329.9
Personal Saving—d	25.7	23.7	22.7	22.8
CORPORATE PRE-TAX PROFITS	45.2	39.6	42.6	46.3
Corporate Taxes	22.4	19.6	21.1	23.0
Corporate Net Profit	22.8	20.0	21.4	23.3
Dividend Payments	14.0	14.2	14.3	14.0
Retained Earnings	8.6	5.8	7.2	9.3
PLANT & EQUIPMENT OUTLAYS	34.4	33.9	35.5	36.3

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Oct. 14	321.2	321.6	297.5
MWS Index—Per capita*	1935-'9-100	Oct. 14	226.8	227.2	214.2
Steel Production Index*	1957-'9-100	Oct. 14	111.2	112.8	84.8
Auto and Truck Production	Thousands	Oct. 21	169	119	170
Paperboard Production	Thousand Tons	Oct. 14	350	350	327
Paperboard New Orders	Thousand Tons	Oct. 14	333	382	309
Electric Power Output*	1947-'49-100	Oct. 14	297	292	276
Freight Carloadings	Thousand Cars	Oct. 14	642	640	653
Engineerings Constr. Awards	$ Millions	Oct. 19	613	389	400
Department Store Sales	1947-'9-100	Oct. 14	156	164	155
Demand Deposits—c	$ Billions	Oct. 11	62.1	61.5	61.2
Business Failures—s	Number	Oct. 12	341	330	326

PRESENT POSITION AND OUTLOOK

depend on the attitude towards business prevailing in Washington.

The foregoing review indicates that further near-term recovery is to be expected. However, further gains in 1962 will depend on improvement in all the major sectors of the economy, whose vigor in some cases is still to be demonstrated.

We have left discussion of the Government sector for last because of the curiously ambivalent effects that may result from increased Federal spending. Such increases would stimulate the domestic economy but they could also create new and more serious problems. We are referring to their effect on the already large shortfall in our balance of payments. If Federal deficits rise as rapidly as now indicated, capital may begin to seek safer refuge abroad. Such a development would necessitate restrictive Government counter-measures, certainly not a pleasant prospect to contemplate.

* * *

NEW ORDERS FOR MACHINE TOOLS spurted sharply in September, but most of the gain was in orders from abroad and was not the result of a strong domestic upsurge.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Oct. 13	1961 Oct. 20
Composite Average	550.0	410.9	532.4	532.4
4 Agricultural Implements	497.2	346.4	389.3	400.8
3 Air Cond. ('53 Cl.—100)	176.9	105.8	155.9	154.6
10 Aircraft & Missiles	1393.5	861.9	1243.4	1179.1
7 Airlines ('27 Cl.—100)	1163.6	736.7	919.5	870.7
4 Aluminum ('53 Cl.—100)	521.3	329.1	329.1	329.1
5 Amusements	427.0	209.3	343.4	343.4
5 Automobile Accessories	531.1	401.0	475.5	475.5
5 Automobiles	157.0	90.8	126.2	125.3
3 Baking ('26 Cl.—100)	44.6	34.9	37.8	39.8
4 Business Machines	2008.2	1159.1	1903.8	1956.0
6 Chemicals	887.1	657.3	849.9	842.4
3 Coal Mining	39.6	27.2	39.0	39.6H
4 Communications	257.6	199.9	240.1	240.1
9 Construction	235.2	143.3	230.1	228.4
5 Container	1135.0	824.6	1091.7	1135.0H
5 Copper Mining	399.3	275.4	344.3	333.2
2 Dairy Products	244.7	146.8	242.6	244.7H
5 Department Stores	223.5	135.2	220.5	223.5
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	438.1	426.4
5 Elect. Eqp. ('53 Cl.—100)	409.4	310.7	405.9	395.6
3 Finance Companies	1163.9	648.8	1131.8	1163.9H
5 Food Brands	853.1	419.3	791.8	830.8
3 Food Stores	331.0	232.1	326.0	326.0

(Nov. 14, 1936 Cl.—100)	High	Low	Oct. 13	Oct. 20
High Priced Stocks	342.8	262.7	337.6	338.4
Low Priced Stocks	729.8	527.6	681.0	682.9
5 Gold Mining	1226.0	810.8	1050.8	1072.7
4 Investment Trusts	173.5	136.5	163.7	163.7
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1466.8	1431.5
7 Machinery	647.3	402.9	564.6	559.7
3 Mail Order	494.2	364.2	478.0	478.0
4 Meat Packing	313.9	223.9	285.3	277.6
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	179.7	175.5
9 Metals, Miscellaneous	483.4	313.3	473.3	463.3
4 Paper	1237.1	867.3	1149.1	1158.9
16 Petroleum	828.6	609.0	728.6	728.6
16 Public Utilities	504.4	341.6	496.4	504.4H
6 Railroad Equipment	111.7	75.8	103.7	103.7
17 Railroads	70.1	49.9	60.2	60.7
3 Soft Drinks	1096.6	690.3	1059.1	1059.1
11 Steel & Iron	464.9	325.4	373.3	366.6
4 Sugar	100.9	63.0	82.9	82.2
2 Sulphur	874.7	563.1	775.9	754.8
11 TV & Electron. ('27—100)	130.4	86.8	115.0	115.0
5 Textiles	264.2	183.3	250.6	252.6
3 Tires & Rubber	255.9	170.6	233.5	238.9
5 Tobacco	342.0	182.5	339.7	342.0H
3 Variety Stores	402.4	349.3	398.9	402.4H
16 Unclassifd (49 Cl. — 100)	337.7	224.0	295.5	300.2

H—New High for 1960-1961.

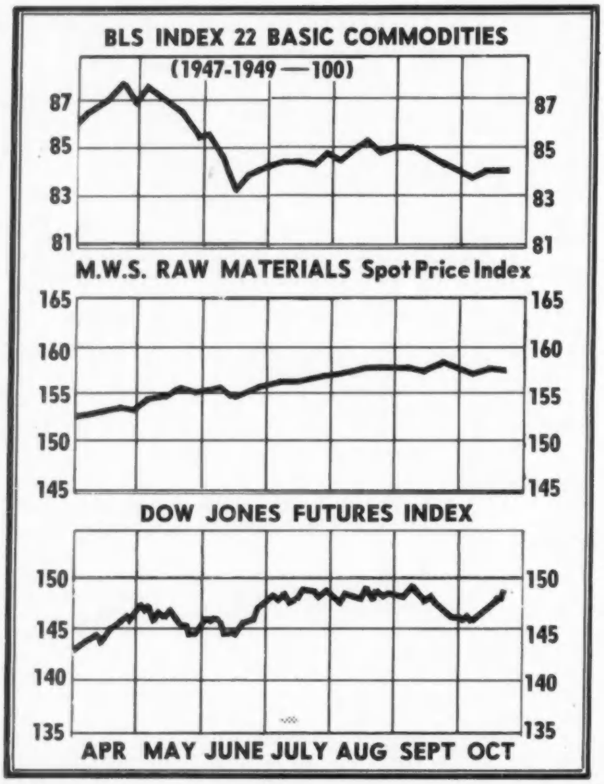
Trend of Commodities

SPOT MARKETS—Sensitive commodities were rather mixed in the two weeks ending October 20, with foods advancing while raw industrial materials were somewhat lower on balance. The BLS daily index of 22 commodities rose 0.5%, although the industrial materials' sector was off 0.2%. Among the latter, there were more plusses than minusses, but the losses were more severe. Steel scrap showed marked weakness and hides were off while copper scrap, burlap and wool tops advanced.

Meanwhile, the broad range of commodities, as reflected in the comprehensive BLS weekly wholesale price index, showed a steadier tone. Farm products were somewhat lower but the index of all commodities other than farm and food products advanced 0.2%.

FUTURES MARKETS—Commodity futures scored a strong advance on a broad front in the fortnight ending October 20. All major markets in cotton, wheat, corn, oats, rye, soybeans, flax and barley made gains, the greatest being in soybeans, corn, and rye. Cocoa rebounded sharply from lows reached early in the period. Only Chicago soybean oil, lard and the distant months in copper were lower.

Wheat futures were higher in the period under review, the May contract gaining 1⅞¢ to close at 211⅝. Through September, producers had placed 203,194,797 bushels of 1961 crop wheat under price supports; 121,020,142 bushels less than last year at the same time. Brisk demand caused by the reduced available supplies of free wheat and continued high export shipments have maintained prices at a point above loan levels.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Oct. 17	118.5	118.5	119.6	60.2
Farm Products	Oct. 17	86.9	87.8	89.5	51.0
Non-Farm Products	Oct. 17	127.2	127.0	128.0	67.0
22 Sensitive Commodities	Oct. 20	84.1	83.7	83.6	53.0
9 Foods	Oct. 20	74.4	73.3	75.7	46.5
13 Raw Ind'l. Materials	Oct. 20	91.3	91.5	89.4	58.3
5 Metals	Oct. 20	95.6	97.0	89.2	54.6
4 Textiles	Oct. 20	84.7	83.9	80.2	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1961	1960	1959	1953	1951	1941
High of Year	158.4	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	148.9	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1

What Third Quarter Earnings Reports Reveal

(Continued from page 178)

containers. The company's know-how and marketing alertness have begun to pay off, however. Sales climbed modestly, but profits jumped to $1.24 a share in the latest reporting period compared to only 84¢ a year earlier. The sudden jump in profit margins suggests that Continental's transitional period is over and that a new level of profitability is in the making.

Drugs Falter

About the only major group close to the consumer that failed to make progress was the drug industry. Most of its members have not yet reported as of this writing, but **Parke-Davis** once more indicated that it has still not solved the problems created by its heavy reliance on chloromycetin. Profits again fell, this time to 31¢ a share from the 50¢ reported a year ago.

Smith, Kline & French fared a little better, managing to top last year's 43¢ a share by 5¢. However, profits slipped behind the second quarter and the profit margin showed a further drop.

Schering, on the other hand, made substantial progress, showing net profit of 86¢ a share compared to 77¢ a year ago and only 45¢ in the second quarter. New products are beginning to pay off for this smaller company, after several years of unimpressive results.

Fading Hope for 1961 Profits Improvement

Early earnings reports are not always conclusive and should be read with some reserve. From the results so far available, however, corporate profitability indicates a much milder business upturn than had been expected earlier in the year. Fourth quarter results may still bring earnings for the year ahead of 1960, but so far there is little evidence to support this hope very strongly. END

Note. Part Two of this study of third quarter earnings will appear in our next issue dated November 18, 1961.

Justice Department Throttling Our Economic Growth?

(Continued from page 174)

contention that the close of business was 3 o'clock on September 8, rather than 4 o'clock, as the government attorneys asserted. But although the Anti-trust Division has implied the bankers were guilty of trickery, the real issue is the conflict between government departments.

Other interferences within the province of established regulatory agencies could be cited. These may be performed in good faith, but it is also possible that they reflect Bobby Kennedy's drive to win plaudits for himself. Certainly they often betray an ignorance of the facts of modern economic life.

Bigness Is Not A Crime

It is evident that the Justice Department's target is, in many instances, nothing more than corporate bigness in itself.

It might as well be immediately admitted that some aspects of modern, large-scale corporate organization are disagreeable. Large aggregations of capital are powerful, and it is possible that they could conspire to injure the public interest. The impersonality of modern corporations — despite the best efforts of their public relations staffs — is disheartening. It was pleasant to work in a small factory where the boss knew every workman by name, or to shop at a ma-and-pa grocery store where there was time for a little visiting while the packages were being piled up on the counter.

But these pleasant accompaniments of an earlier business generation were secured only at a price — a price few of us would want to pay today, and one which would, in fact, represent a dangerous luxury in the light of the current struggle for world economic leadership.

The essential nature of bigness may be emphasized by the fact that it is not a characteristic of modern business life alone. Edu-

cation is also "big" now, and even charities are being scientifically organized on a national scale. And not least to be mentioned, government has mushroomed most rapidly of all. The old days when the income tax rate was 4% and the only federal employee most of us knew was the postman are pleasant to recall — but these conditions no longer fit the complexities of modern life. An evolution in forms of corporate organization has been equally necessary.

Large Scale Operation Means Efficiency

Let's be a little more specific. Low unit costs for manufactured goods require large markets — and mass production. We have long possessed the broad market which Europe is only now beginning to achieve, by the suppression of internal tariff barriers. But vast as our market is, too minute a fragmentation of production would still be uneconomical. This fact, rather than any sinister drive toward monopoly, explains why so many industries today are dominated by four up to a dozen major companies. In most cases competition has probably been enhanced by these powerful organizations struggling for markets all the way across the map, instead of a situation in which a large number of smaller companies each comfortably dominated its own regional market.

► But even though modern conditions do favor large, integrated corporations, the extent to which individual companies dominate the market is frequently exaggerated.

► **In 1901, U. S. Steel accounted for two thirds of our total ingot capacity; today, vastly bigger than it was then, it represents only 28% of the industry.**

► **Giant du Pont, the target of a protracted antitrust suit, does only 8% of the nation's chemical business.**

► As investors know, a number of new chemical concerns have managed to enter the big time in recent years despite the vast lead of the Big Four. Another Big Four, in the tire and rubber industry, can hardly be indifferent to the spirited competition of such independents as Armstrong and Seiberling. And in the food distribution industry dominated by A & P and a couple of other giants a number of new entrants like Penn Fruit and ACF-Wrigley have somehow managed to do very well for themselves.

Market Domination Not Necessarily Sinister

It is also far-fetched to suggest that the dominance of a single company is necessarily the result of conspiratorial action, as the government implies in its suit against the Electromotive Division of **General Motors.** It is quite true that GM holds a near-monopoly of the diesel locomotive business in this country. This situation resulted because the three standard locomotive manufacturers stubbornly stuck to the steam engine after its obsolescence was clearly written on the wall. Although two of them tardily shifted to the diesel, they were too late to be more than feeble also-rans, and GM obtained 85% of the market almost by default. As a matter of fact GM's position is so strong as to render ludicrous the government's charge that it has pushed the sale of locomotives by assigning its freight traffic on a reciprocal basis. Since practically all roads have bought and used GM diesels, no such basis could be found for favoring one road over another.

► In an entirely different field **Pitney-Bowes** found itself, completely by happenstance, the sole manufacturer of postage metering devices. The company has agreed to help set up its own competition — but one can hardly feel that it is under any moral compulsion to do so.

Human Nature in Business

Besides internal growth and the acquisition of companies in similar businesses, a strong tendency also exists for corporations to expand by vertical integration, that is, by reaching upward along the lines of supply to control parts and raw materials, or downward toward the ultimate consumer. In this process some companies are bound to be hurt, and then they are all too prone to call "Foul!", alleging conspirational actions.

Modern conditions do, unfortunately, make it difficult to start a new business, but the high rate of taxation and low rate of depreciation probably represent more severe obstacles than the competition of large companies.

Capital for Business Enterprise

Another aspect from the point of view of the general welfare is the great ease of larger than smaller companies in raising new capital. The average investment per job is now slightly in excess of $20,000 (and reaches as high as $60,000 in the petroleum industry). At a time when full employment and more rapid economic growth are both important national objectives, it would be ridiculous to penalize the most efficient channels of capital formation merely because they are big.

The foregoing arguments do not by any means suggest that the ferreting out of price-fixing and conspiracy to suppress trade are not proper governmental functions, or that the Antitrust Division should close up shop. On the contrary, true monopoly should be prosecuted as vigorously as possible. But we cannot afford at this vital juncture to handicap business on far-fetched charges of a "tendency" toward monopoly.

World conditions today call for the tools of big business in meeting the challenge of the economic warfare instituted by the Soviet Union, whose broad decision-making powers must be met by a power that can combat such a setup. We cannot afford to diffuse our power by multiplying the number of decision-makers, as would be the case if we broke the large companies up into small units. This is no time for political juggling, nor for any trust-busting campaign arising out of a desire to set a new record for trust-busting. END

The Finance Companies in Depth

(*Continued from page 197*)

activities include auto finance, personal loans, and insurance, from 1953 to 1960 through yearly increases, doubled its earnings, its dividend and its book value per share. The 74 personal loan offices which it opened during the past two years should measurably add to the company's earnings in 1962 and 1963, just as its write-offs held back net during the past two years. The growth of General Finance has resulted primarily from internal generation of funds, with cash needs met through debt or non-convertible preferred issues designed to avoid dilution of stockholders' equity. The quality of the company is reflected by a generally unknown fact: of the $21 million 5% Senior Notes privately placed this year, the Ford Foundation took down $9.5 million; Aetna Life Insurance, $2.0 million; major funds, trusts and banks took down the remainder.

Personal Loan Financing

Diversification by nearly all the major sales financing companies from the volatile auto financing area to the faster-growing, more stable, and more profitable area of personal loans, reflects the optimism of the consumer credit industries' management about the potential of the personal loan industry. Credit experts project a 60% increase in consumer installment debt by 1970 because of several factors: the increased public acceptance of the use of consumer credit, the growing regularity of consumer income, the tendency toward early marriage which limits young couples' cash reserves, and the increasing margin of income over subsistence spending. **Even granting this 60% per decade increase — an average growth rate of only 4.8% — the rate of earnings growth in the personal loan industry will suffer because of increased competition among companies, higher service costs, a less flexible interest rate structure, and increased competition from banks and captive finance companies.**

The investor must therefore only hold stocks in companies whose rate of growth is expected to exceed the industry average, whose dividends afford a measure of downside risk protection, and whose current market price does not discount years of future growth.

Substantial increases in earnings are anticipated by the managements of **Beneficial Finance, Family Finance** and **Household Finance** during the 1961-1963 period.

Household Finance Corp. reported a good gain in earnings, approximately 12% for the first half of 1961 compared with the first six months of last year. This was achieved through stringent cost controls and a gain in the volume of loans. The Corporation is working out arrangements with various retail outlets to finance consumer installment buying of items from automobiles to television sets. At a recent price of 54 the stock is selling around 20 times latest earnings.

Beneficial Finance Company— Company is making excellent progress as reflected in management's recent estimate of 1961 calendar year earnings of $2.80 to $2.90 per share compared with $2.32 per share for 1960. In recognition of this gain, the Company recently announced an intention to pay a 10% stock dividend on November 6 contingent upon approval of the merger with Western Auto Supply Company. The combination with the latter, 57% of whose retail sales are on credit, would give Beneficial Finance a direct source of substantial sales financing business. At a recent price of 54 the Company's stock is selling at approximately 19 times estimated 1961 earnings.

American Investment during the twelve months period ended June 30, 1961, opened or acquired a total of 147 consumer finance offices. A substantial part of these additions resulted from the company's recent purchases of the M. A. C. Credit Corp. and the Royal Loan Group. As a result of these purchases and a new method of credit evaluation developed by the company, management hopes that earnings will break away from their five-year plateau.

Two smaller companies primarily in the small loan industry present an interesting contrast. **Budget Finance** recently expanded its activities into sales financing, commercial financing and

life insurance. Aided by lower preferred dividends and lower operating expenses, this highly leveraged company substantially increased earnings in the first half of this year. **Seaboard Finance** recently cut back on its credit card venture after sustaining a loss on it this year.

Commercial Financing

The loans of commercial financing companies are generally higher in principal amount, shorter in duration, and issued at lower rates than those of the consumer finance companies. As such, the defensive nature of commercial finance operations stems not from repayment lags, but rather from the ability of the commercial finance company to fill in gaps in the turnover of its short-term notes with longer term paper — equipment leasing and the like. Thus, sustained earnings growth is the mark of superiority in the commercial finance field.

Heller (Walter E.) displays a good growth record in share earnings and dividends. Similar to its major competitor, **Talcott (James)**, Heller has recently established Canadian connections for industrial financing in that country. END

Bank Stocks Look Good For 1962

(Continued from page 190)

• The problem of continually increasing operating expenses—chiefly in the form of higher salaries and employee benefits to meet the competition of industry for competent personnel.

The banks have attempted, with some degree of success, to find solutions for these problems. (1)—They have offered Certificates of Deposits bearing interest comparable with Treasury bills to corporate depositors. (2)—On savings accounts, many commercial banks have increased their interest payments through the adoption of more liberal methods of calculation of interest, chiefly by paying interest to the date of withdrawal and by allowing grace days at the beginning and end of each month. This has been costly to such banks as those on the West Coast where savings accounts are relatively large, but it has helped them to retain and expand their savings deposits.

(3)—To meet increasing operating expenses, the banks have made important strides toward automation. However, the most important gains in this area are believed to lie ahead when the use of common checking forms with magnetic ink identifying characters will permit electronic sorting of checks on a large scale. This is expected to be achieved in the next few years. Already a major percentage of the country's commercial banks have prepared their checks with the magnetic ink arabic characters.

New York, Philadelphia and Midwestern Banks

► Among the New York City banks, **Chemical Bank New York Trust** stands out this year with a 6% gain in net operating earnings for the first nine months. This is due in part to the fact that last year's results for Chemical were below average. However, this bank is one of the most dynamic and best managed of the financial institutions in New York and may be expected to continue to move ahead in the future.

First National City, Chase Manhattan, Bankers and **Manufacturers Hanover** are other leading New York banks which have large branch systems so that they are equipped to provide retail as well as wholesale banking services. All except the last named have applications pending to acquire banking systems in the suburbs. And, of course, **Morgan Guaranty Trust** would get into the retail banking field via the holding company if the proposed state-wide Morgan New York State Corporation wins the approval of the Federal Reserve Board in addition to the existing approval of the Superintendent of Banks of New York.

► In the Mid-West the Chicago banks, chiefly **First National of Chicago** and **Continental Illinois National Bank,** are dominant institutions whose stocks have performed very well in the market this year. These two banks are expected to continue to do well, with a good chance for a stock dividend in the case of Continental within the near future. **National Bank of Detroit, National City Bank of Cleveland** and **Cleveland Trust Company** are other well-managed Mid-western banking institutions which have performed well and give promise of continuing to do well in the future.

On a price-earnings basis some of the best values in bank stocks appear to exist among such Philadelphia banks as the **Pennsylvania Company for Banking and Trusts, Girard Trust Corn Exchange** (whether the merger with Philadelphia National is approved or not) and **Fidelity-Philadelphia Trust Company.** The Philadelphia area, especially since the construction of the Fairless Steel Works and the reconstruction of the city's buildings, has materially improved its economic prospects for the future.

Southwest and West Coast Institutions

Banks on the Pacific Coast and in the Southwest have been sought after by investors in recent years because of their superior growth potentials. The California banks, especially, have become favorites because, in addition to excellent growth possibilities, California permits state-wide branch banking. **Bank of America, Security First National Bank of Los Angeles, Wells Fargo America Trust Company** and **Crocker-Anglo National Bank** all have moved up sharply this year as investors' interest has focussed on the West Coast banks. However, the increased interest paid on savings accounts has slowed the earnings gains of these banks this year.

In the Southwest, **Republic National Bank of Dallas** and **Valley National Bank of Phoenix** have been bank growth stock favorites. The state banking laws of Texas, which do not permit branch banking, tend to handicap the expansion of banks in that state as they do in Illinois and other States which have such restrictions. But the growth of the business in Texas appears to offset in considerable measure the restrictive effect of the law.

Major Bank Holding Systems

Among the bank holding companies, the **Western Bancorporation** (formerly Firstamerica Corporation) stands out as a growth situation. With its major constituent bank in California (United California) plus other banks in Oregon, Washington, Arizona, Utah, Nevada, Colorado and four other Western states, this system also has over $5 billion of con-

solidated assets and a fine management team. Among the other major bank holding company groups which have wide and growing areas to draw upon and efficient operating organizations are **Marine Midland Corporation** of New York, **Northwest Bancorporation, First Bank Stock Corporation** (both of the latter headquartered in Minneapolis) and **First Wisconsin Bankshares.**

In summary the outlook for the banks for 1962 and 1963 appears to be favorable since interest rates are firming and the volume of bank earnings assets is increasing. However, most leading issues have had sizable gains and are at or near the highs for the year, so that purchases must be carefully timed. END

Textile Companies Get "Break" From The Government

(Continued from page 194)

present earnings weakness. In addition, the company has been developing some new fabrics for the casual and sportswear field.

Dan River Mills, a major producer of yarn dyed cotton goods, also does factoring and commission business. The latter activities are increasing; and should begin to carry through to net more importantly. Although higher cotton prices may temporarily pinch earnings, government relief is expected in this area before long, improving prices, as evidenced by recent price increases of 8-square print cloth, the industry bellwether, to $17\frac{3}{4}$¢ from $17\frac{1}{2}$¢ indicates that further increases should be coming as the economy picks up and heavier demands are made on present inventory positions. It will take some time before increases are transmitted into higher earnings.

Pepperell Manufacturing, also well known manufacturer of sheets and pillowcases, can be considered one of the more successful companies in the field, not due to an increase in sales, but rather to better cost controls. The company has paid some dividends ever since 1852. While earnings are not expected to show much growth, the earnings level should remain at about the same attractive rate. On this basis, income is the primary basis for interest.

The Carpet Makers.—The carpet makers have their own unique problems. In past years, it required vast amounts of capital to enter this field. Now, however, technological changes have and will continue to have a disturbing influence. Due to modern techniques, capital requirements have dropped substantially, and inventory requirements are considerably reduced. Bigelow, for example, has a new process, known as 'Tuft-Dyed' which means that huge inventories of carpets previously dyed prior to manufacture are no longer necessary, as much of this can be done upon receipt of an order after the unit has been manufactured.

Although capital requirements have dropped in this segment of the industry, tremendous sums are still involved, enough to discourage others from entering the already highly competitive field. In addition, a low return on the investment, and increasing competition from other materials add to the industry's woes. To solve the problem, diversification and mergers are in progress.

Bigelow - Sanford, the second largest carpet manufacturer, has also been diversifying into other areas. Past erratic earnings should be helped by relocation of plants to the South, a 40% interest in VBS, a West-German manufacturer in the Common Market, and acquisition of Crestliner Boats in 1960. The past year was hard on boat companies, however, Crestliner was able to continue to show some growth, which has been attributed to the strong dealer set-up established by Bigelow.

Firth Carpet and Mohasco agreed to a merger in August, calling for 1 Mohasco share for each $1\frac{1}{2}$ shares of Firth. A group of stockholders reportedly have been trying to block the merger, as the dissident group considers the terms unattractive in view of the prices of the two stocks.

Mohasco is the world's largest carpet manufacturer. The company's tax loss was exhausted in 1960 and declining sales this year will further reduce earnings for 1961. The long term outlook makes this stock worth holding as a speculation on the success of management to develop new materials and uses. The company recently announced a new acoustical curtain in fabric form which has an interesting potential, but this fact should not obsecure the dull intermediate term outlook. Recent merger developments, however, created increased interest in the stock and may assist earnings via tax losses and broadening of the sales base. END

Black Africa And American Financing

(Continued from page 187)

Until recently, African leaders have been rather busy in getting acquainted with one another and celebrating their newly won freedom. But now they are under increased pressure to meet essential economic needs. Population growth in these new African countries has created acute housing shortages. **Africans from the bush have been crowding into the cities and into the industrial areas looking for work. Unemployment, partly owing to unsettled political conditions, has been on the increase in most areas. Continued flight of European capital and the accelerated departure of European technicians is crippling many enterprises.**

Other Jolts To Confidence

Other aspects of the African scene are disturbing. Threats of confiscation of foreign capital in a couple of African states have created a disquieting impression on the outside world. Even a rumor of intended taking over of private property has precipitated a couple of flights of capital. A few such unpleasant episodes make a deeper impression on international financial circles than do the numerous concessions and facilities some new states have already made to attract foreign capital.

Actually the outside world has been excessively fearful of political upheavals in Africa. Overall, African peoples have shown remarkable calm during the revolutionary changes of recent years. But the injection of the Cold War into the Congo and chaotic intertribal conditions there, have

shaken outside confidence in Africa as a whole.

• Africans wonder why trouble in one corner of Africa should make us pull back everywhere else. After all, Africa is nearly four times as large as the United States. Distances are much greater and economic conditions more varied on that continent than here. But I wonder whether they recognize that the turmoil and lust for power and wealth with its trend toward dictatorship is the great handicap under which they are operating.

• It is mainly for this reason that American private capital has shown hesitation in going into areas where the government is actively engaged in public utilities and in industry. But this trend—socialistic if you will—exists in Africa as it does in most other emerging nations. For want of private capital and experience, the government has had to take the initiative in promoting industrial enterprises.

Foreign Investment Has Neglected Vast Areas

One aspect in the attitude of American and other foreign capital, toward Africa has caused its leaders particular anxiety. In the past, foreign capital has gone mainly into mining, oil, and industrial areas where profit possibilities are highest, passing over Black Africa altogether. Industrial growth in Africa has thus been concentrated in less than 8% of the area of the entire continent. Vast areas with populations of over a hundred million have been virtually ignored. Although modern communications —plane and radio—tend to bring African peoples closer together, as matters stand the possibility exists that the flow of foreign capital again will be directed toward the same mining and industrial areas as before, rather than into the vast subsistence agricultural areas of West and Equatorial Africa.

We can understand this anxiety because human nature, being what it is, money flows into areas of confidence and away from excessive risk.

No assurance can be given that conditions in the poor West African areas will necessarily improve. Standards of living have already been going down in some areas. Unless foreign enterprise and capital is attracted promptly, conditions may get even worse.

In fact, the securing of private capital will, to a great extent from now on, depend on the capacity of the leaders to show progress in improving the living conditions for the masses. It will be a prerequisite for loans sought, for many leaders have been promising their people more than they can deliver, and unless they are able to show some early progress their own position will be in danger.

The Major Need: Mutual Confidence

Overall progress in Africa calls for the establishment of greater mutual confidence than now exists between African leaders and outside investment capital. The giving of tangible aid to the people of the newly-formed countries will depend in a large measure on confidence in the kind of leadership to emerge in the individual states. Whether an individual with a dictator complex will arise to leadership or whether those in control are thinking in terms of benefit to the people and will seek to lift them out of the misery and suffering they now endure, will be a top consideration.

Coming at a time of tension in world finance, outside investment will require more than the illusion of security. It will want assurance of political stability and signs of genuine devotion on the part of the leaders to the cause of their countries as a whole, rather than merely using their position as a step toward gratifying the ambitions of a clique at the top. END

The Construction Industry

(Continued from page 181)

non-residential building field, we come to industrial building. This is also a large category comprising about 22 per cent of the non-residential building market at present. It has exhibited a vigorous growth trend in the last two years. 1960 expenditures rose 32 per cent over 1959, and this year's activity is expected to climb another 7 per cent to a level of approximately \$3.5 billion.

• The prospects for industrial plants in 1962 are somewhat mixed. On one hand, the general economic recovery should definitely help this category which is still subject to wide fluctuations according to the tone of overall business conditions. However, mainly because of the recent recession, contract awards for factories have been at a dismally low level this year. Next year, contracts are expected to reverse their decline and rise fairly sharply. But this turnbout in contract letting may occur too late to boost actual dollar expenditures above the 1961 mark.

School, Hospital Construction To Bolster Public Service Segment

▶ The balance of non-residential building is made up of public service construction — hospitals, schools, public buildings, etc. Together, these categories actually account for about 50 per cent

of the total non-residential market. Strong demand forces are pushing construction activity upward in most areas here, and 1962 should be a banner year, particularly for hospitals and schools.

As a result of the bumper baby crops of the mid-1940's, a wave of teenage students is beginning to inundate our secondary school systems, creating intensive pressure for expansion of facilities in many parts of the country.

Bolstered by a record level of school bond approvals last year and bond sales earlier this year, school construction expenditures should hit a record high of about $3.7 billion for 1961 as a whole. Another advance is scheduled for 1962.

Hospital building next year will benefit from a surge in contract letting in 1961. In fact, 1961 hospital awards will undoubtedly post the biggest percentage increase over 1960 of any non-residential building type.

Residential Building Has Lost Steam

► **Economically, housing is the most important sector of construction. The dollar valuation of all residential building construction now accounts for about 40% of all new construction.**

• Housing is having only a mediocre year in 1961. It appears that non-farm housing starts will amount to about 1,300,000, slightly above the 1960 level but below the robust pace of 1959.

In the past few years, it has become increasingly obvious that housing demand is no longer as intense as it was during the earlier postwar period. Since the net increase in dwelling units from 1950 to 1960 was considerably more than growth in households, the backlog of need left over from the hiatus in home building during the depression and World War II has been gradually worked down. As a result, the vacancy rate has tended to move up, slowly at first but accelerating more recently.

Moreover, easy money conditions no longer have the same stimulating effect on home building. We have had such conditions for over a year without producing a housing "boom."

All this does not mean that the nation's housing is overbuilt. Our rate of replacement is still extremely low, and millions of substandard dwellings are still occupied. But we certainly are better housed than we were. Some of the pressure is off, at least until the next big population surge due in the mid-1960's.

► It can be fairly easily demonstrated that the basic annual demand for housing now is about 1,300,000 units: about 900,000 for population growth, 300,000 for replacement, and 100,000 a year merely to keep the vacancy rate at the same level as our total housing stock grows. The replacement rate could be considerably higher, and it is starting to rise. For these reasons, it seems unlikely that housing starts could fall much below the 1961 level.

On the other hand, there are reasons why they should rise a little. The more liberal financing terms for FHA-assisted housing resulting from the 1961 Housing Bill should still have some stimulating effect. The cumbersome urban renewal program finally seems to be picking up steam. In addition, personal incomes will be rising more sharply with the overall economic upswing putting more people in a house-buying mood.

• For these reasons, then, we would expect some improvement in housing starts for 1962.

• Apartments should account for about a quarter of total housing starts next year. Although there are potent long-term forces which may lift this proportion even higher later in the decade, 25 per cent appears to be the top limit for the immediate future.

Apartments: Overbuilt on West Coast But Vacancy Rate Still Low in New York

In some cities, particularly on the West Coast, apartment construction may decline quite drastically next year. The speculative fervor has resulted in a construction rate greater than even the burgeoning population growth of the West can support. **Actually, the warning signs have been flying for some time now, in the form of sharply increased rental vacancy rates in the West and unusually generous inducements to prospective tenants.**

In New York, however, this does not apply. The vacancy rate is still quite low here, and judging from current plans and contract awards, apartment construction may remain high in the year ahead.

The total dollar volume of residential building in 1962 can be expected to rise a little more than the anticipated gain in housing starts. Construction costs, though relatively stable for the last six months or so, will push up again next year. Also, it should be a very good year for non-housekeeping residential construction—hotels and motels, etc. Again, expenditures on housing additions and alterations will be in a rising trend thanks partly to the liberalization of the FHA home improvement loan plan.

► Mention should also be made of the heavy engineering sector of construction. About half of this is comprised of highway building which, with the Federal-aid program on an even keel again, will score a modest advance in 1962. Other types of heavy engineering construction such as electric utility systems, water and sewer systems, and some military construction should move up a little faster.

Role of Cycles Will Be Greatly Diminished in Future

The construction industry appears headed for a good year in 1962. If the economy in general, continues to expand, construction expenditures could approach $62 billion, or about 7% ahead of 1961.

This may not strike one as an immense advance, but it will mean reasonable prosperity for many firms in the industry. In addition, if the forecast is borne out, it will mean another nail driven in the coffin of the "18-year" cycle theory. Not that construction is immune to a collapse, but it does seem highly resistant. Except for some marginal areas, like Western apartment construction, there is little evidence of building very far out in front of the market.

All in all, the chances for further growth for building are high, always assuming that business in general gives a good account of itself. END